

# **ZCL Composites Inc.**

## **Management's Discussion and Analysis**

For the three months ended March 31, 2008

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May 5, 2008

**INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the three months ended March 31, 2008 and the MD&A and audited consolidated financial statements and related notes for the year ended December 31, 2007, which are available on SEDAR at [www.sedar.com](http://www.sedar.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 U.S. revenue, with the distinction based on the primary location of the customers for the Company's various operations. Revenue from jurisdictions outside of Canada and the U.S. 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 projected operating results for 2008 and beyond, revenue and EBITDA targets, business opportunities in the petroleum, water/wastewater and other markets, 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 petroleum industry capital expenditures, 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, and other risks and uncertainties described under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2007, and elsewhere in other documents filed with Canadian provincial securities authorities. These documents are available to the public at [www.sedar.com](http://www.sedar.com).

The Company believes that the expectations reflected in these 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. These statements 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.

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#### **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, and working capital 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.

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, gains or losses on foreign exchange and gains or losses on sale of property, plant and equipment. Investors are cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with GAAP. A table reconciling net income in accordance with GAAP to EBITDA is included later in this MD&A.

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.

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.

#### **BUSINESS PROFILE**

ZCL is one of North America's leaders in the design, manufacture, and supply of fibreglass liquid storage and handling systems to the petroleum industry. The Company also provides fibreglass tanks to the chemical and pulp and paper industries, steel tanks for custom applications and is developing a growing presence in the water and wastewater industry. The Company has significant operations in Canada with manufacturing facilities located in Alberta, Quebec and Nova Scotia. On February 22, 2007, the Company expanded into the U.S. with the acquisition of Xerxes Corporation ("Xerxes"). This acquisition provides ZCL with a strong presence in the U.S. to complement its leading position in Canada. Xerxes also operates in the design, manufacture and marketing of fibreglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries and has four manufacturing facilities located in California, Texas, Maryland and Iowa. 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.

#### **DIVIDENDS**

On March 18, 2008, the Company's Board of Directors declared a cash dividend of \$0.12 per common share for shareholders of record on April 3, 2008, payable on April 17, 2008. This dividend represents a 20% increase over the annual dividend declared a year ago.

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## **OVERALL FINANCIAL PERFORMANCE**

### **First Quarter 2008 Highlights**

- Revenue of \$23.8 million, up 59% from \$14.9 million in the first quarter of 2007
- Net income of \$1.4 million, up significantly from \$77,000 in the first quarter of 2007
- Diluted earnings per share of \$0.05, compared with nil in the first quarter of 2007

The Company achieved strong revenue and earnings growth for the first quarter ended March 31, 2008 compared with a year earlier. The growth was driven by improved performance in the Company's Canadian operations and significantly higher sales in the U.S. Canadian revenue for the quarter was \$10.3 million, up 14% from \$9.0 million in the first quarter of 2007 due to increased sales to upstream, downstream and industrial customers. U.S. revenue totalled \$13.5 million in the quarter, up 128% from \$5.9 million in the first quarter last year. The higher U.S. revenue was due to a full three months of the Xerxes operations in 2008 compared to just over a month in the first quarter of 2007 and increased sales of product to a contractor for tank lining installations, primarily in Florida.

As at March 31, 2008, the Company was in a strong financial position with working capital of \$17.8 million, total assets of \$102.1 million and long term debt of \$8.0 million including the current portion.

## **OUTLOOK**

### **Highlights**

- Management believes ZCL is on track to achieve 2008 revenue and EBITDA margin targets
- Revenue growth target for 2008 of more than 20% (unchanged)
- EBITDA target of 16% of 2008 revenue (unchanged)

The first quarter results were consistent with the Company's internal expectations. The Company's 2008 targets for revenue growth of more than 20% and EBITDA of 16% of revenues are unchanged from the targets previously disclosed in March 2008.

ZCL's 59% revenue growth in the first quarter exceeded the annual target percentage but management expects year-over-year revenue growth to moderate in the remaining three quarters of 2008, due to the timing of the acquisition of Xerxes on February 22, 2007.

While the first quarter 2008 EBITDA margin of 11.6% was below the annual target, it represented an improvement from the EBITDA margin of 7.8% a year earlier. As in 2007, EBITDA margin is expected to improve in subsequent quarters of 2008 relative to the first quarter.

The Company's long-term profitable growth objective is 15% to 20% per annum. The 2008 target for revenue growth of more than 20% assumes a U.S. to Canadian dollar translation rate of 1.00 in 2008, which was consistent with the average rate in the first quarter of 2008. The Company has also established a medium-range objective to improve EBITDA to 20% of revenue. The 2008 EBITDA target of 16% of revenue represents a material increase from the actual EBITDA margin of 13.9% in fiscal 2007.

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The Company's consolidated order backlog as of March 31, 2008 was \$21.9 million, up from \$16.8 million at December 31, 2007 and \$20.8 million at March 31, 2007. For comparability purposes, the U.S. dollar denominated portion of the backlog for all three periods were translated into Canadian dollars at the March 31, 2008 closing rate of 1.02. The increase from December reflects the normal seasonality of the Company's business.

Management remains optimistic about achieving the revenue and EBITDA targets for 2008 for a number of reasons including the following:

- As noted in prior periods, the state of Florida has adopted a regulation that requires all existing single wall underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. It is estimated that there are approximately 10,000 plus tanks that need to be upgraded or replaced in 2008 and 2009. This represents significant short-term demand, given that annual demand for the entire U.S. market is typically 12,000 to 15,000 tanks. In the first quarter of 2008 ZCL experienced higher product sales to a contractor for tank lining installations in Florida. Tank sales in Florida were relatively consistent in the first quarter compared with a year earlier but are expected to rise as the deadline approaches.
- The Steel Tank Institute's ("STI") decision to reduce the warranty on new STI licensed tanks to 10 years from 30 years effective January 1, 2008. This decision should benefit the Company as ZCL's warranty for fibreglass tanks remains intact at 30 years.
- Continued strong support for ZCL's products in Canada as evidenced by the three year contact extension with Petro-Canada, announced subsequent to the quarter end, and the two-year contract with Les Petroles Therrien Inc., announced during the first quarter of 2008. The ZCL team takes significant pride in contracts such as these as they are an expression of confidence in the Company's ability to consistently supply high quality products and a value added approach to customer service. The Company intends to capitalize on the strength of its product solutions and approach to customer service to grow its presence in the petroleum market.
- Recent increases in the price of natural gas and continued strong oil prices could result in increased Canadian upstream activity in future periods.
- Advances in U.S. policy favouring biofuels. In December 2007, the Energy Independence and Security Act was signed. This Act includes a renewable fuels standard and a schedule that calls for a fivefold increase in biofuels to a minimum of 36 billion gallons of ethanol and biodiesel by 2022, up from less than seven billion gallons in 2007. The increased use of biofuels should create additional tank opportunities. Biofuels also create a more corrosive environment which management believes favours corrosion resistant fibreglass tanks such as ZCL's. Biofuels increase the presence of tank water bottoms, creating ideal conditions for the growth of naturally occurring, yet very corrosive microorganisms. This phenomenon is known as "Microbial Induced Corrosion" or "MIC".
- Continued strong growth opportunities in the water and wastewater market. The Company currently has a very small share of this substantial market and in prior years the U.S. operations have generated strong growth in water and wastewater sales. In 2008, sales resources are being expanded and dedicated to this market in both Canada and the U.S.

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- Continued support in Asia for the Company's tank lining system, marketed under the Phoenix System™. Two sites were completed in Hong Kong in the first quarter of 2008, consistent with a year earlier. Activity over the remainder of 2008 with the Company's main tank lining customer in Hong Kong is expected to be similar to 2007. The Company also believes there is potential for additional installations in South East Asia.

In addition to the growth prospects, a key objective that the Company continues to make progress on is integration of the Canadian and U.S. operations. The Company continues to integrate operational and manufacturing best practices which are expected to result in product enhancements and efficiencies.

### SELECTED FINANCIAL INFORMATION

For the three months ended (in thousands of dollars, except per share amounts)	Mar 31/08 \$	Mar 31/07 \$	Change %
<b>Operating Results</b>			
Revenue			
Canadian	10,336	9,046	14%
U.S.	13,461	5,899	128%
Total	23,797	14,945	59%
Gross profit (note 1)	4,559	2,385	91%
% of revenue	19.2%	16.0%	
General and administration	1,795	1,222	47%
Amortization	817	752	9%
Financing expense	133	345	-61%
Income tax provision	461	(11)	
<b>Net income</b>	<b>1,353</b>	<b>77</b>	<b>1657%</b>
EBITDA (note 1)	2,764	1,163	138%
% of revenue	11.6%	7.8%	
<b>Earnings per share</b>			
Basic	0.05	-	
Diluted	0.05	-	
<b>Cash Flow</b>			
Cash from operations (note 2)	2,152	782	
Changes in non-cash working capital	(3,517)	(5,352)	
Issue of common shares	-	37,696	
Net advance of bank indebtedness	3,965	3,698	
Net advance (repayment) of long term debt	(1,000)	10,000	
Purchase of property, plant and equipment	(1,128)	(663)	
Business acquisitions	-	(52,648)	

As at (in thousands of dollars)	Mar 31/08 \$	Dec 31/07 \$	
<b>Financial Position</b>			
Working capital	17,839	20,642	
Total assets	102,096	94,368	
Long term debt	7,958	8,938	

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

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## **RESULTS OF OPERATIONS**

### **Revenue**

Revenue for the first quarter of 2008 totalled \$23.8 million, up 59% from \$14.9 million for the corresponding quarter of 2007. Canadian revenue for the quarter totalled \$10.3 million, up 14% from \$9.0 million in the first quarter of 2007 due to increased sales to upstream, downstream and industrial customers. U.S. revenue totalled \$13.5 million in the quarter, up 128% from \$5.9 million in the first quarter last year. The higher U.S. revenue was due to a full three months of the Xerxes operations in 2008 compared to just over a month in the first quarter of 2007 and increased sales of product to a contractor for tank lining installations, primarily in Florida. The state of Florida has adopted a regulation that requires all existing single wall underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009.

The Company's revenue is subject to fluctuations in the value of the Canadian dollar. As noted above, U.S. revenue totalled \$13.5 million in the first quarter of 2008 (2007 – \$5.9 million) and this revenue was converted into Canadian dollars at a weighted average exchange rate of approximately 1.0049 (2007 - 1.1685). If the exchange for the first quarter of 2008 would have been in effect a year earlier, the U.S. revenue for the first quarter of 2007 would have been approximately \$800,000 lower. For additional information on the impact of changes in the U.S. to Canadian dollar exchange rate see note 12 of the Company's March 31, 2008 unaudited interim consolidated financial statements.

### **Gross Profit and Margin**

For the first quarter of 2008, gross profit was \$4.6 million, up 91% from \$2.4 million a year earlier primarily due to the factors impacting revenue noted above. The gross profit for the first quarter of 2007 was \$150,000 lower due to the amortization of Xerxes finished goods inventory that was recorded at fair value at the date of acquisition.

Gross margin for the first quarter of 2008 was 19.2% of revenue, compared with 16.0% of revenue for the corresponding quarter in 2007. As in 2007, gross margin is expected to improve in subsequent quarters of 2008 relative to the first quarter.

### **General and Administration, Amortization and Financing Expense**

General and administration ("G&A") expenses were \$1.8 million for the first quarter, up 47% from \$1.2 million in the same quarter last year due to the inclusion of a full three months of expenses from the U.S. operations in 2008 compared to just over a month in the first quarter of 2007. Included in G&A expenses for the first quarter of 2007 was approximately \$300,000 of costs resulting from the acquisition of Xerxes.

Amortization was \$817,000 for the quarter, up 9% from \$752,000 in the first quarter of 2007 primarily due to a higher property, plant and equipment base with the acquisition of Xerxes.

Financing expense was \$133,000 for the first quarter of 2008, down 61% from \$345,000 in the same quarter last year. The most significant component of financing expense is interest on the long term debt used to acquire Xerxes. The 2007 expense also included a foreign exchange loss of approximately \$300,000 on U.S. forward contracts closed during the first quarter. These contracts were purchased to mitigate the currency risk associated with the Xerxes acquisition. No forward exchange contracts were entered into during the first quarter of 2008 or over the remainder of 2007.

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#### **Income taxes**

Income tax expense represented 25.4% of pre-tax income for the first quarter of 2008, compared with a recovery of 16.7% of pre-tax income in the corresponding quarter of 2007. The Company estimates that its income tax expense for 2008 will be between 25% and 28% of pre-tax income.

#### **Net income and Earnings per Share**

Net income for the quarter was \$1.4 million, up significantly from \$77,000 in the first quarter of 2007 due to the higher Canadian and U.S. revenue, including a full three months of the Xerxes operations in 2008 compared to just over a month in the first quarter of 2007. Basic and diluted earnings per share were \$0.05 for the first quarter of 2008, compared to nil for the same quarter of 2007.

#### **Other Comprehensive Income**

The Company had other comprehensive income ("OCI") of \$1.9 million for the quarter ended March 31, 2008, compared to a loss of \$577,000 in the same quarter of 2007. The OCI primarily relates to the increase in the value of the U.S. dollar relative to the Canadian dollar and the translation of the Xerxes/U.S. 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 OCI of \$1.9 million reflected the U.S. dollar translation rate increasing from 0.98 at December 31, 2007 to 1.02 at March 31, 2008. The other comprehensive loss of \$0.6 million in the first quarter of 2007 reflected the U.S. dollar translation rate decreasing from 1.17 at the date of acquisition of Xerxes on February 22, 2007 to 1.16 at March 31, 2007.

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#### SUMMARY OF QUARTERLY RESULTS

The following selected information for the eight most recent quarters should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and accompanying notes.

For the three months ended (in thousands of dollars, except per share amounts)	2008	2007				2006		
	Mar 31 \$	Dec 31 \$	Sep 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$	Jun 30 \$
Revenue	23,797	30,013	31,293	28,532	14,945	14,873	13,974	12,552
Net income	1,353	2,766	2,546	2,126	77	1,488	1,611	957
Basic earnings per share	0.05	0.10	0.10	0.08	-	0.07	0.08	0.05
Diluted earnings per share	0.05	0.10	0.10	0.08	-	0.07	0.07	0.04

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. This seasonality was reflected in the revenue and earnings for the first quarter of 2008 being lower than the fourth quarter of 2007.

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 approximately doubled the Company's revenue and operations. With this addition, the Company's exposure to fluctuations in the U.S. to Canadian dollar exchange rate has increased, which can have a positive or negative impact on the Company's revenue and earnings. For additional information on the impact of changes in the U.S. to Canadian dollar exchange rate see note 12 of the Company's March 31, 2008 unaudited interim consolidated financial statements.

#### LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2008, the Company had positive working capital (current assets less current liabilities) of \$17.8 million, compared with \$20.6 million at December 31, 2007. Current assets increased by \$5.8 million while current liabilities increased by \$8.6 million. Current assets increased in part due to higher inventory levels and an increase in income taxes recoverable primarily due to recoverable amounts for prior years and instalment payments for 2008 in the first quarter. While inventories at March 31, 2008 were up \$3.8 million compared to December 31, 2007, they were down \$1.9 million compared to March 31, 2007. Current liabilities increased due to a \$3.2 million dividend payable to shareholders and the Company increasing the utilization of the operating line by \$4.0 million. At March 31, 2008, the Company had cash and cash equivalents of \$2.6 million, compared to \$2.0 million at year end. The Company also has a revolving operating credit facility, provided by a chartered bank, available to a maximum of \$15.25 million subject to meeting prescribed margin requirements. The Company was in compliance with all required bank covenants. 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 in 2008.

During the first quarter of 2008, the Company generated cash flow from operating activities of \$2.2 million, before changes in non-cash working capital compared to \$0.8 million in the corresponding quarter of 2007. The increase of \$1.4 million from the first quarter of 2007 was primarily due to higher net income achieved during the first quarter of 2008. The Company repaid \$1.0 million of long term debt during the first quarter of 2008, which included \$500,000 that was due at December 31, 2007 that did not get withdrawn by the bank until the beginning of 2008. The Company also borrowed \$4.0 million against its operating line during the first quarter of 2008, which is consistent with the \$3.7 million drawn during the corresponding quarter of

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2007. Capital expenditures of \$1.1 million during the first quarter of 2008 increased from \$663,000 compared to the corresponding period in 2007.

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' bank indebtedness of \$6.3 million.

#### **Contractual Obligations**

The Company's commitments for operating leases have not changed significantly from amounts disclosed in the December 31, 2007 annual consolidated financial statements.

#### **TRANSACTIONS WITH RELATED PARTIES**

Certain of the Company's manufacturing components were purchased from a corporation whose Chairman and CEO became a director of the Company effective May 15, 2007. Purchases of \$24,500 (March 31, 2007 - \$36,500) from this corporation are included in manufacturing and selling costs in the interim consolidated statements of income or inventories. The transactions were recorded at the exchange amount being normal commercial rates for the products. Accounts payable and accrued liabilities at March 31, 2008 included \$2,400 (December 31, 2007 - \$1,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

A corporation controlled by a former director of the Company provided trucking services of \$39,000 during the three months ended March 31, 2007 to the Company, which was included in manufacturing and selling costs. This director resigned from the Board effective September 18, 2007 and is therefore no longer a related party. The transactions were recorded at the exchange amount being normal commercial rates for the services.

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#### **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 interim consolidated financial statements for the three months ended March 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 interim consolidated financial statements for the three months ended March 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 interim consolidated financial statements for the three months ended March 31, 2008.

##### **Recent Accounting Pronouncements**

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 pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of adopting the standard.

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 developing a convergence plan and assessing the impact of the ultimate adoption of IFRS.

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#### CONTROLS AND PROCEDURES

Management has evaluated whether there were changes in the Company's internal controls over financial reporting during the most recent interim period ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes were identified.

#### OUTSTANDING SHARE DATA

As at May 5, 2008, there were 26,445,529 common shares and 255,668 share options outstanding. Of the options outstanding, 183,334 are currently exercisable into common shares.

#### RECONCILIATION TABLES

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

<b>For the three months ended</b> (in thousands of dollars)	<b>Mar 31/08</b> \$	<b>Mar 31/07</b> \$
Revenue	<b>23,797</b>	14,945
Manufacturing and selling costs	<b>19,238</b>	12,560
Gross profit	<b>4,559</b>	2,385
Gross margin ( <i>Gross profit as a % of revenue</i> )	<b>19.2%</b>	16.0%

The following table reconciles quarterly net income in accordance with GAAP to EBITDA.

<b>For the three months ended</b> (in thousands of dollars)	<b>Mar 31/08</b> \$	<b>Mar 31/07</b> \$
Net income from continuing operations	<b>1,353</b>	77
Amortization	<b>817</b>	752
Financing expense	<b>133</b>	345
Income tax expense (recovery)	<b>461</b>	(11)
EBITDA	<b>2,764</b>	1,163

The following table presents the calculation of cash from operations.

<b>For the three months ended</b> (in thousands of dollars)	<b>Mar 31/08</b> \$	<b>Mar 31/07</b> \$
Net income from continuing operations	<b>1,353</b>	77
Add items not affecting cash:		
Amortization expense	<b>817</b>	752
Future tax recovery	<b>(39)</b>	(102)
Stock-based compensation expense	<b>21</b>	55
Cash from operations	<b>2,152</b>	782