

Management's Discussion and Analysis

For the three months and nine months ended September 30, 2008

November 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 and nine months ended September 30, 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 or the Company's website at www.zcl.com. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

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

Advisory Regarding Forward-Looking Statements

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's 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.

The Company believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon. In addition to the factors noted above, management cautions readers that the significant economic instability in the world today could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve its established financial targets. Factors such as tighter lending standards, volatile capital markets, lower commodity prices (oil and natural gas in particular), the US housing crisis and recessionary pressures could result in an economic slowdown and current and future projects being delayed, postponed or cancelled, which could negatively impact the Company's ability to grow or sustain revenues and earnings.

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

Non-GAAP Measures

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

Gross profit is defined as revenue less manufacturing and selling costs. Gross margin is revenue less manufacturing and selling costs divided by revenue and expressed as a percentage. Manufacturing and selling costs include direct materials and labour, variable and fixed manufacturing overhead, and marketing and selling expenses, and exclude amortization, general and administration, and financing expenses.

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

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

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

BUSINESS PROFILE

ZCL is one of North America's leaders in the design, manufacture, and supply of environmentally friendly 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. A wholly owned subsidiary in the Netherlands manufactures Parabeam[®], a patented three-dimensional glass fibre material that is a key input into the ZCL double wall tank and tank lining system.

On February 22, 2007, the Company expanded into the US with the acquisition of Xerxes Corporation ("Xerxes"). This acquisition provides ZCL with a strong presence in the US 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, which was paid on April 17, 2008. This dividend represents a 20% increase over the annual dividend declared a year ago.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Three months ended Sept 30			Nine months ended Sept 30		
	2008 \$	2007 \$	Change %	2008 \$	2007 \$	Change %
Operating Results						
Revenue						
Canadian	11,762	14,215	-17%	34,480	34,230	1%
US	21,378	17,078	25%	55,471	40,540	37%
Total	33,140	31,293	6%	89,951	74,770	20%
Gross profit (<i>note 1</i>)	7,053	6,927	2%	19,461	15,016	30%
% of revenue	21.3%	22.1%		21.6%	20.1%	
General and administration	1,908	2,564	-26%	5,949	5,536	7%
Amortization	919	1,072	-14%	2,655	2,750	-3%
Financing expense	116	321	-64%	464	889	-48%
Income tax provision	975	424	130%	2,703	1,092	148%
Net income	3,135	2,546	23%	7,690	4,749	62%
EBITDA (<i>note 1</i>)	5,145	4,363	18%	13,512	9,480	43%
% of revenue	15.5%	13.9%		15.0%	12.7%	
Earnings per share						
Basic	0.12	0.10	20%	0.29	0.19	53%
Diluted	0.12	0.10	20%	0.29	0.19	53%
Cash Flow						
Cash from operations (<i>note 1</i>)	3,955	3,130		10,308	6,681	
Changes in non-cash working capital	449	(681)		(5,739)	(4,363)	
Issue of common shares	7	263		7	38,076	
Net advance (repayment) of:						
Bank indebtedness	(1,383)	116		5,201	6,079	
Long term debt	(500)	(500)		(2,000)	9,000	
Purchase of property, plant and equipment	(1,185)	(1,855)		(2,890)	(3,319)	
Other assets	-	(2,266)		-	(2,340)	
Business acquisitions	-	-		-	(52,648)	

As at (in thousands of dollars)	Sept 30 2008	Dec 31 2007
Financial Position		
Working capital (<i>note 1</i>)	23,217	20,642
Total assets	107,786	94,368
Long term debt	6,980	8,938

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

OVERALL FINANCIAL PERFORMANCE**Third Quarter 2008 Highlights**

- Net income of \$3.1 million, up 23% from \$2.5 million in the third quarter last year
- Diluted earnings per share of \$0.12, up 20% from \$0.10 in the third quarter last year
- Revenue of \$33.1 million, up 6% from \$31.3 million in the third quarter last year
- Backlog of \$27.8 million, up 9% from June 30, 2008 and up 56% from September 30, 2007

Nine Month 2008 Highlights

- Record net income, diluted earnings per share and revenue
- Net income of \$7.7 million, up 62% from \$4.7 million last year
- Diluted earnings per share of \$0.29, up 53% from \$0.19 last year
- Revenue of \$90.0 million, up 20% from \$74.8 million last year

The third quarter increase in net income and diluted earnings per share of 23% and 20%, respectively, reflected the continued strong US revenue growth and lower expenses. Management believes that the US revenue growth primarily resulted from the capture of increased market share from steel tank manufacturers for underground petroleum storage tanks. The gain in market share is due to increased recognition by retail service station owners that steel underground petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties.

At the end of the third quarter, the Company had a strong backlog of \$27.8 million. This backlog represented an increase of 56% compared to a year earlier with strong increases in both the Canadian and US operations.

In addition to the financial results, a key third quarter highlight was the incorporation of ZCL's patented three dimensional glass fibre, Parabeam[®], into the double wall tanks manufactured by the Company's US operations. This expanded use of Parabeam[®] is expected to result in future operational efficiencies. With the use of Parabeam[®], the Company also introduced its insurance backed Prezerver[®] Enhanced Protection Program to US customers in October of this year. This program, which provides customers with third-party liability and pollution coverage, has allowed ZCL to differentiate itself in the Canadian marketplace.

For the first nine months of 2008, net income and diluted earnings per share were up 62% and 53%, respectively, over the same period last year reflecting strong US revenue growth and consistent Canadian revenue. The higher US revenue resulted from the factors noted above for the quarter and a full nine months of the Xerxes operations in 2008, compared to just over seven months in 2007. The impact of the extra time period was partially offset by the average US to Canadian dollar conversion rate decreasing to approximately 1.02 in the first nine months of 2008 compared to 1.09 in the same period last year.

As at September 30, 2008, the Company had working capital of \$23.2 million, total assets of \$107.8 million and long term debt of \$7.0 million including the current portion.

OUTLOOK

Highlights

- Revenue growth target for 2008 remains unchanged at more than 20%
- EBITDA target for 2008 remains unchanged at 16% of revenue
- Caution due to current world economic factors including tighter lending standards, volatile capital markets, lower commodity prices, the US housing crisis and recessionary pressures

The Company's 2008 target for revenue growth of more than 20% and the EBITDA target of 16% of revenue remain unchanged from the targets originally disclosed in March 2008. Over the long-term, the Company has also established an objective of achieving average revenue growth of 15% to 20% per annum. A medium-range objective of improving EBITDA to 20% of revenue has also been established.

Management believes that the 2008 targets are achievable due to the strong backlog, continued strong sales orders in October and the other factors noted below. Management, however, cautions readers that the significant current world economic instability could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve the established financial targets. Factors such as tighter lending standards, volatile capital markets, lower commodity prices (oil and natural gas in particular), the US housing crisis and recessionary pressures have already likely had an impact on parts of the Company's business, including sales in Florida and in the water and wastewater market. These factors could result in further economic slowdown and current and future projects being delayed, postponed or cancelled, which could negatively impact the Company's ability to grow or sustain revenues and earnings.

For the first nine month of 2008, the Company's revenue growth of 20% was essentially in line with the annual target. Although revenue increased only 6% in the third quarter, management believes that the target is achievable due to the strong backlog and continued strong sales orders. In addition, a significant portion of the Company's revenue is denominated in US dollars and therefore the recent strengthening of the US dollar will also contribute to higher overall revenue. When the revenue growth target was originally established in March 2008, management assumed an average US to Canadian dollar conversion rate of 1.00. The weighted average conversion rate through the first nine months of 2008 was approximately 1.02 compared to 1.09 in the same period last year.

In October of 2008, there have been some significant increases and fluctuations in the conversion rate. At the beginning of the month, the US to Canadian dollar conversion rate was approximately 1.06, it increased to as high as 1.29 later in October and averaged about 1.17 for the month. As of November 4, 2008, the conversion rate had decreased from the high of 1.29 in late October to approximately 1.15. In comparison, the average conversion rate for the fourth quarter of 2007 was approximately 0.98.

EBITDA through the first nine months of 2008 represented 15.0% of revenue, up from 12.7% for the first nine months of 2007. In the third quarter, EBITDA represented 15.5% of revenue compared to 13.9% in the same quarter of 2007. Management believes that the 16% EBITDA target is achievable but will depend in part on strong revenue growth in the fourth quarter. In the fourth quarter of 2007, the Company achieved an EBITDA of 17.1% of revenue which resulted in the overall EBITDA for 2007 improving to 13.9% of revenue compared to the 12.7% through the first nine months of 2007. Management cautions that prospects for achieving the EBITDA target may be impaired by a continued increase in the value of the US dollar against the Canadian dollar. While an increase in the value of the US dollar is expected to have a positive impact on overall revenue and earnings, it may result in a lower EBITDA as a percentage of revenue due to higher expenses in Canada for the purchase of certain raw materials which are denominated in U.S. dollars.

As noted above, a key factor impacting the Company's outlook for the fourth quarter of 2008 is a strong increase in the sales order backlog. As at September 30, 2008, the backlog was \$27.8 million, up 56% from \$17.9 million at September 30, 2007 and up 9% from \$25.5 million at June 30, 2008. The strong backlog growth reflected increases

in both the Company's Canadian and US operations. For comparability purposes, the US dollar denominated portion of the backlog for all three periods was translated into Canadian dollars at the September 30, 2008 closing rate of 1.04. In addition, the June 30, 2008 backlog previously disclosed was adjusted to exclude a contract that extends to 2010.

Other factors impacting management's outlook for the remainder of 2008 and beyond include:

- Increased recognition of internal corrosion affecting steel tanks in the downstream petroleum market. As noted above, management believes that the Company has benefited in 2008 from increasing recognition that steel petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties. Advances in the use of biofuels have helped to accelerate the increased recognition of the impact of internal corrosion on steel tanks since biofuels create a more corrosive environment. 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 ("MIC").

Historically high steel prices and the decision by the Steel Tank Institute ("STI") to reduce the warranty on new STI licensed tanks to 10 years from 30 years effective January 1, 2008 should also provide a benefit. ZCL's fibreglass tank warranty against corrosion remains intact at 30 years.

- Strong growth opportunities in the water and wastewater market which currently accounts for roughly 20% of ZCL's total revenue. The Company currently has a very small share of this substantial market and has been able to generate strong water and wastewater sales growth over the past few years. Through the first nine months of 2008, water and wastewater revenue was relatively consistent with the same period last year, however the orders received and related backlog have shown solid growth despite the current economic slowdown. To further capitalize on this opportunity, sales resources and initiatives directed to this market continue to be expanded in both Canada and the US.
- Regulations adopted by the state of Florida that require all existing single wall underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. The Company believes that there may be as many as 10,000 tanks that need to be upgraded, replaced or shutdown by the end of 2009. A significant increase in short-term demand could result, given that annual demand for the entire US market is typically 12,000 to 15,000 tanks.

Through the first nine months of 2008, the Company has experienced higher product sales for the purpose of lining tanks primarily in Florida; however tank sales in Florida have remained relatively consistent compared with the same period a year earlier. Based on information recently gathered from state authorities, management believes that the Company is not losing market share, as the total number of new tanks installed in Florida, by ZCL and others, has decreased in 2008 compared with the same period in 2007.

The speculation in the market as to why service station owners continue to delay making the required upgrades ranges from a lack of urgency, to the tighter credit standards which has impacted the ability of an owner to borrow the funds necessary to complete the upgrades. It is believed that a majority of the large chains have completed their upgrades and that most of the remaining stations to be upgraded are owned by small chain or independent operators. The Company continues to believe that there may be an increase in demand in Florida as the December 31, 2009 deadline approaches. A notice on the Florida Department of Environmental Protection website (Storage Tank Regulation Main Page) provides a warning to tank owners which includes, among other things, the following statement: "Please Note: The Department has never issued an extension for an equipment upgrade deadline since the storage tank rules were adopted in 1984". While this notice remains posted, there is speculation in the industry that the Florida legislature may use the current economic instability, including the tighter lending standards, as a reason to extend the deadline.

- Continued strong support for ZCL's petroleum storage solutions as evidenced by contract extensions announced earlier this year. 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.

- Higher and stable natural gas prices over the longer term. The sale of storage tanks to the upstream petroleum market could improve in the future if natural gas prices stabilize at higher levels than those prevailing today.
- Opportunities for ZCL's technology in the coal-burning power plant industry due to the regulatory push towards reducing sulphur dioxide emissions. The Company has received expressions of interest for its corrosion resistant fibreglass technology and management believes ZCL's technology is an ideal and cost effective solution for use in scrubbers and chimney stacks that remove sulphur dioxide from flue gas emissions.
- Opportunities for the Company's tank lining system. As noted earlier this year, the Company was awarded a three year contract for the installation of its lining system in Hong Kong. The Company also believes there is potential for additional installations in North America, Europe and South East Asia.

In addition to the growth prospects, the Company continues to focus on additional integration opportunities. In September of this year, the Company's US operations began to incorporate ZCL's patented three dimensional glass fibre, Parabeam[®], into its double wall tanks. This expanded use of Parabeam[®] is expected to result in operational efficiencies in 2009.

In conjunction with the use of Parabeam[®], the Company introduced its insurance backed Prezerver[®] Enhanced Protection Program to US customers in October of this year. This program, which provides customers with third-party liability and pollution coverage, has allowed ZCL to differentiate itself in the Canadian marketplace.

RESULTS OF OPERATIONS

Revenue

Revenue for the third quarter of 2008 totalled \$33.1 million, an increase of \$1.8 million or 6% compared to \$31.3 million for the corresponding quarter of 2007. The gain resulted from strong US revenue growth, which more than offset lower Canadian revenue. For the first nine months of 2008, revenue totalled \$90.0 million, an increase of \$15.2 million or 20% compared to \$74.8 million in the same period last year reflecting strong US revenue growth and consistent Canadian revenue.

The Company generates significant revenue denominated in US dollars and is therefore subject to fluctuations in the US to Canadian dollar conversion rate. In the third quarter of 2008, this was not a significant factor as the weighted average US to Canadian dollar conversion rate of approximately 1.04 was comparable to approximately 1.05 in the third quarter last year. However, for the first nine months of 2008, the weighted average US to Canadian dollar conversion rate of approximately 1.02 was significantly lower than approximately 1.09 for the first nine months of 2007. If the exchange rate for the first nine months of 2008 had been in effect a year earlier, total consolidated revenue for the first nine months of 2008 would have been up approximately 24% from a year earlier. For additional information on the impact of changes in the US to Canadian dollar exchange rate see note 12 of the Company's September 30, 2008 unaudited interim consolidated financial statements.

Canadian Revenue

Canadian revenue for the third quarter of 2008 totalled \$11.8 million (35% of total revenue), down 17% from \$14.2 million (45% of total revenue) in the same quarter last year. For the first nine months of 2008, Canadian revenue totalled \$34.5 million (38% of total revenue), up slightly compared to \$34.2 million (46% of total revenue) for the corresponding 2007 period. The nine month 2008 Canadian revenue reflected increased sales to downstream petroleum, industrial and commercial customers and lower lining and upstream petroleum sales. The revenue decrease in the third quarter of 2008 compared to the same quarter last year reflected lower tank lining revenue and timing of shipping tanks completed in the quarter. At the end of the third quarter, Canadian backlog was up significantly over both June 30, 2008 and September 30, 2007 due to increased sales orders and an increased quantity of tanks completed in the third quarter that are expected to be shipped in the fourth quarter.

US Revenue

US revenue for the third quarter of 2008 totalled \$21.4 million (65% of total revenue), up 25% from \$17.1 million (55% of total revenue) in the third quarter last year. The increase was primarily due to strong growth in fibreglass tank sales to retail service station owners (downstream petroleum market). Management believes that this growth reflected the capture of market share from steel tank manufacturers for underground petroleum storage tanks. The gain in market share is due to increased recognition in the industry that petroleum storage tanks manufactured from steel can be subject to internal corrosion and that fibreglass tanks have superior corrosion resistant properties. Management also believes that market share capture reflected the impact of historically higher steel prices and the reduction in the warranty on tanks licensed by the Steel Tank Institute to 10 years from 30 years effective January 1, 2008.

The third quarter US revenue increase was also due to higher water and wastewater sales and increased product sales for tank lining installations, primarily in Florida. As noted above, the US to Canadian dollar conversion rate did not have a significant impact on the third quarter US revenue growth since the conversion rate was relatively consistent in the third quarter of both 2008 and 2007.

For the first nine months of 2008, US revenue totalled \$55.5 million (62% of total revenue), up 37% compared to \$40.5 million (54% of total revenue) for the corresponding period in 2007. The increase reflects the factors noted above for the quarter and a full nine months of the Xerxes operations in 2008 compared to just over seven months in 2007. The impact of the extra time period was partially offset by the average US to Canadian dollar conversion rate decreasing to approximately 1.02 in the first nine months of 2008 compared to 1.09 in the same period last year.

Gross Profit and Margin

Gross profit for the third quarter of 2008 was \$7.1 million, up 2% from \$6.9 million in the same quarter last year. For the first nine months of 2008, gross profit totalled \$19.5 million, an increase of 30% compared to \$15.0 million a year earlier. These increases primarily reflect the factors impacting revenue noted above.

Gross margin for the third quarter of 2008 was 21.3% of revenue compared with 22.1% of revenue for the corresponding quarter in 2007 reflecting a change in sales mix and an increased investment in sales resources and initiatives. For the first nine months of 2008, gross margin was 21.6% of revenue compared with 20.1% a year earlier. This improvement was due to Xerxes finished goods inventory adjustment in 2007 as explained below, an improved product sales mix for the nine month period, partially offset by higher selling costs.

The 2007 margins noted above were impacted by the sale of finished goods acquired in conjunction with the acquisition of Xerxes. Upon acquisition, the Xerxes finished goods inventory was recorded at the estimated selling price less the costs to sell the inventory. This resulted in an increase in the carrying value of inventory of \$1.1 million which was charged to manufacturing costs as the inventory was sold. During the third quarter of 2007, approximately \$0.1 million (2007 first nine months – \$0.9 million) of the increase in carrying value was charged to manufacturing costs. Without this inventory adjustment, gross margin for the third quarter of 2007 would have been 22.6% of revenue (2007 first nine months – 21.3%).

General and Administration, Amortization and Financing Expense

General and administration ("G&A") expenses for the third quarter were \$1.9 million, down 26% from \$2.6 million in the same quarter last year. The decrease primarily reflected approximately \$0.5 million in expenses included in the third quarter of 2007 resulting from the acquisition of Xerxes (2007 first nine months – \$0.7 million). There were no similar expenses in the third quarter of 2008. For the nine months ended 2008, G&A expenses were \$5.9 million, an increase of 7% compared to \$5.5 million for the same period last year. The increase for the nine month period was due to a full nine months of the Xerxes operations in 2008 compared to just over seven months in 2007, as well as increased infrastructure support costs and higher public company expenses.

Amortization for the third quarter of 2008 was \$0.9 million, slightly lower than \$1.1 million in the same quarter last year. For the first nine months of 2008, amortization expense of \$2.7 million was consistent with a year earlier.

Financing expense for the third quarter of 2008 totalled \$0.1 million, compared to \$0.3 million in the same quarter last year. The most significant components of financing expense include interest expense and foreign exchange gains and losses. Interest expense was lower in part because of the repayment of a portion of the Company's long term debt. For the first nine months of 2008, financing expense decreased to \$0.5 million from \$0.9 million for the corresponding 2007 period. Included in the expense for the first nine months of 2007 was a foreign exchange loss of approximately \$300,000 on US forward exchange contracts closed during the first quarter of 2007. These contracts were purchased to mitigate the currency risk associated with the Xerxes acquisition. No forward exchange contracts were entered into during the first nine months of 2008 or over the remainder of 2007.

Income taxes

Income tax expense represented 23.7% of pre-tax income for the third quarter of 2008, compared with 14.3% of pre-tax income in the corresponding quarter of 2007. For the first nine months of 2008, income tax expense represented 26.0% of pre-tax income compared with 18.7% of pre-tax income in the same period of 2007. The Company estimates that its income tax expense for 2008 will be between 26% and 28% of pre-tax income.

Net Income and Earnings per Share

Net income for the third quarter was \$3.1 million, up 23% from \$2.5 million in the same quarter last year primarily due to the higher US revenue and lower G&A costs, partially offset by a higher tax rate in the third quarter this year. Basic and diluted earnings per share were \$0.12 for the third quarter of 2008, an increase of 20% compared with \$0.10 for the same quarter of 2007.

For the first nine months of 2008, net income was \$7.7 million, up 62% from \$4.7 million for the same period in 2007 primarily due to the strong revenue growth and higher gross margin. Basic and diluted earnings per share were \$0.29 for the first nine months of 2008, an increase of 53% compared to \$0.19 for the same period last year.

Other Comprehensive Income (Loss)

The Company had other comprehensive income ("OCI") of \$1.3 million for the third quarter ended September 30, 2008. The income reflects the increase in the value of the US dollar relative to the Canadian dollar and the translation of the Xerxes/US 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 third quarter income reflected the US to Canadian dollar conversion rate increasing to approximately 1.04 at September 30, 2008 from 1.01 at June 30, 2008.

For the first nine months of 2008 the Company had other comprehensive income of \$2.5 million reflecting the US to Canadian dollar translation rate increasing to 1.04 at September 30, 2008 from 0.98 at December 31, 2007. The accumulated other comprehensive loss of \$6.2 million at September 30, 2008 reflected the US dollar conversion rate decreasing to the rate of approximately 1.04 at September 30, 2008 from 1.17 at the date of acquisition of Xerxes on February 22, 2007.

SUMMARY OF QUARTERLY RESULTS

For the three months ended (in thousands of dollars, except per share amounts)	2008			2007				2006
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	33,140	33,014	23,797	30,013	31,293	28,532	14,945	14,873
Net income	3,135	3,202	1,353	2,766	2,546	2,126	77	1,488
Basic earnings per share	0.12	0.12	0.05	0.10	0.10	0.08	-	0.07
Diluted earnings per share	0.12	0.12	0.05	0.10	0.10	0.08	-	0.07

The above table of 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.

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first and second quarters of the year. The revenue and earnings for the eight quarters shown above were also impacted by the acquisition of Xerxes on February 22, 2007. The Xerxes operations more than doubled the Company's revenue and operations. With this addition, the Company's exposure to fluctuations in the US to Canadian dollar exchange rate has increased, which can have a positive or negative impact on the Company's revenue and earnings. For additional information on the impact of changes in the US to Canadian dollar exchange rate see note 12 of the Company's September 30, 2008 unaudited interim consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2008, the Company had positive working capital (current assets less current liabilities) of \$23.2 million, an improvement relative to \$20.5 million at June 30, 2008 and \$20.6 million at December 31, 2007. The improvement of \$2.7 million relative to June 30, 2008 was due to positive cash flow from operations, partially offset by payments on long-term debt of \$0.5 million and capital asset additions of \$1.2 million. The improvement relative to December 31, 2007 again was due to positive cash flow from operations being offset by a dividend of \$3.2 million, payments on long term debt of \$2.0 million and capital asset additions of \$2.9 million.

Current assets as at September 30, 2008 increased by \$10.9 million relative to December 31, 2007, while current liabilities increased by \$8.4 million. The increases were both due to increased business activities. Current assets increased largely due to higher cash and cash equivalents, accounts receivable and inventory levels, while current liabilities increased largely due to higher bank indebtedness and accounts payable levels. As at September 30, 2008, the Company had cash and cash equivalents of \$3.8 million and approximately \$5.4 million drawn against its revolving operating credit facility (bank indebtedness). The operating credit facility is provided by a Canadian chartered bank and is available to a maximum of \$15.25 million subject to meeting prescribed margin requirements. The facility is limited to a prescribed percentage of accounts receivable and inventory balances at a point in time. The Company was in compliance with all required bank covenants as at September 30, 2008. 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 over the remainder of 2008 and 2009.

During the third quarter of 2008, the Company generated cash flow from operations of \$4.0 million, before changes in non-cash working capital, compared to \$3.1 million in the corresponding quarter of 2007. The increase of \$0.9 million from the third quarter of 2007 was primarily due to higher net income achieved during the third quarter of 2008. During the third quarter of both 2008 and 2007 the Company made scheduled payments against its long-term debt of \$0.5 million. The Company repaid \$1.4 million against its operating facility during the third quarter of 2008, compared to a draw of \$0.1 million against the facility in the corresponding quarter of 2007. Capital expenditures of \$1.2 million during the third quarter of 2008 compared to \$1.9 million in the corresponding period in 2007. In the third quarter of 2007, the Company also made a deposit of \$2.3 million against the purchase of land and certain operating assets of a business that was completed in the fourth quarter of that year.

For the first nine months of 2008, the Company generated cash flow from operations of \$10.3 million, before changes in non-cash working capital, up 54% from \$6.7 million in the corresponding period of 2007. The increase of \$3.6 million from the same period last year was primarily due to higher net income achieved for 2008. The Company repaid \$2.0 million of long term debt during 2008, including \$500,000 that was due December 31, 2007 but not withdrawn by the bank until the beginning of 2008. The Company also borrowed \$5.2 million against its operating line during 2008, which is consistent with the seasonal fluctuations in the Company's business and the \$6.1 million drawn during the corresponding period of 2007. Dividends of \$3.2 million were paid in 2008, compared to \$2.6 million paid in 2007. Capital expenditures of \$2.9 million during 2008 were consistent with \$3.3 million for the corresponding period in 2007. The 2008 capital expenditures primarily related to maintenance capital, the exercise of a purchase option on certain land and buildings and the purchase of additional production equipment for the Company's Parabeam operations.

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

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

The Company purchased certain manufacturing components from a corporation whose Chairman and CEO became a director of the Company on May 15, 2007. The purchases totalled \$84,400 (2007 - \$10,000) in the third quarter of 2008 and \$130,200 (2007 - \$70,000) in the nine months ended September 30, 2008. The transactions were recorded at the exchange amount being normal commercial rates for the products and included in manufacturing and selling costs in the consolidated statements of income or inventories on the consolidated balance sheets. Accounts payable and accrued liabilities at September 30, 2008 included \$61,500 (December 31, 2007 - \$1,000) 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 \$66,800 (2007 - \$193,200) for the three months ended and \$261,100 for the nine months ended September 30, 2008 (2007 - \$749,300) 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 recorded at the exchange amount being normal commercial terms for the services. Accounts payable and accrued liabilities at September 30, 2008 included \$8,800 (December 31, 2007 - \$101,900) owing to the law firm. There are no ongoing contractual or other commitments resulting from these transactions.

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 and nine months ended September 30, 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 and nine months ended September 30, 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 and nine months ended September 30, 2008.

Recent Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The changes will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the standard for its fiscal year beginning January 1, 2009. 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.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to start reporting under International Financial Reporting Standards ("IFRS"). 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 financial reporting, and business activities.

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 September 30, 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 November 5, 2008, there were 26,450,529 common shares and 250,668 share options outstanding. Of the options outstanding, 178,334 are currently exercisable into common shares.

RECONCILIATION TABLES

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

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

	Three months ended Sept 30			Nine months ended Sept 30		
	2008 \$	2007 \$	Change %	2008 \$	2007 \$	Change %
(in thousands of dollars)						
Revenue	33,140	31,293	6%	89,951	74,770	20%
Manufacturing and selling costs	26,087	24,366	7%	70,490	59,754	18%
Gross profit	7,053	6,927	2%	19,461	15,016	30%
Gross margin (<i>Gross profit as a % of revenue</i>)	21.3%	22.1%		21.6%	20.1%	

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

	Three months ended Sept 30			Nine months ended Sept 30		
	2008 \$	2007 \$	Change %	2008 \$	2007 \$	Change %
(in thousands of dollars)						
Net income	3,135	2,546	23%	7,690	4,749	62%
Amortization expense	919	1,072	-14%	2,655	2,750	-3%
Financing expense	116	321	-64%	464	889	-48%
Income tax expense	975	424	130%	2,703	1,092	148%
EBITDA	5,145	4,363	18%	13,512	9,480	43%
% of revenue	15.5%	13.9%		15.0%	12.7%	

The following table presents the calculation of cash from operations.

	Three months ended Sept 30		Nine months ended Sept 30	
	2008 \$	2007 \$	2008 \$	2007 \$
(in thousands of dollars)				
Net income	3,135	2,546	7,690	4,749
Add items not affecting cash:				
Amortization expense	919	1,072	2,655	2,750
Future tax expense (recovery)	(120)	(531)	(100)	(970)
Stock-based compensation expense	21	43	63	152
Cash from operations	3,955	3,130	10,308	6,681

The following table presents the calculation of working capital.

	As at		
	Sept 30 2008 \$	Dec 31 2007 \$	Change \$
(in thousands of dollars)			
Current assets	46,861	35,923	10,938
Current liabilities	23,644	15,281	8,363
Working capital	23,217	20,642	2,575