

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") of the results of operations and cash flows for the three ("third quarter") and nine months ("year-to-date") ended September 30, 2009 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, 2009 and the MD&A and audited consolidated financial statements and related notes for the year ended December 31, 2008, 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.

Forward-Looking Statements

This MD&A contains forward-looking information based on certain expectations, projections and assumptions. This information is subject to a number of risks and

uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For additional information refer to the "Advisory Regarding Forward-Looking Statements" section later in this MD&A.

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. For additional information refer to the "Non-GAAP Measures" section later in this MD&A.

This MD&A is dated as of November 3, 2009.

ZCL'S BUSINESS PROFILE

ZCL is the largest North American manufacturer and distributor of environmentally-friendly fibreglass reinforced plastic (FRP) underground storage tanks (UST), operating out of seven plants in Canada, four plants in the US and one plant in the Netherlands.

The FRP UST products are used in the downstream retail petroleum storage markets and the water and wastewater storage markets. ZCL manufactures both a single wall, and for secondary containment, a double wall tank, to serve these industries.

As an alternative to UST replacements, ZCL has developed the Phoenix System™ which allows a single wall steel or fibreglass tank to be upgraded to a corrosion resistant secondary contained storage tank while still in the ground. This system is currently being implemented in North America, Europe and Asia. In addition, ZCL manufactures and distributes a patented, three dimensional glass fibre material called Parabeam®, which is a key component of the Company's double wall tank products and Phoenix System™.

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

ZCL also manufactures and distributes a line of FRP home heating oil tanks, primarily for the Northeast US and Eastern Canada residential markets.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Operating Results				
Revenue	30,621	33,140	79,112	89,951
Gross profit (<i>note 1</i>)	5,029	7,053	10,283	19,461
% of revenue	16.4%	21.3%	13.0%	21.6%
General and administration	1,551	1,908	5,595	5,949
Foreign exchange loss (gain)	272	(112)	316	(136)
Amortization	958	919	2,966	2,655
Interest expense	151	228	408	600
Income tax provision	609	975	308	2,703
Net income	1,488	3,135	690	7,690
EBITDA (<i>note 1</i>)	3,206	5,257	4,372	13,648
% of revenue	10.5%	15.9%	5.5%	15.2%
Earnings per share				
Basic	0.06	0.12	0.03	0.29
Diluted	0.06	0.12	0.03	0.29
Cash Flow				
Cash from operations (<i>note 1</i>)	2,343	3,957	3,689	10,325
Changes in non-cash working capital	1,034	449	(4,259)	(5,739)
Net advance (repayment) of:				
Bank indebtedness	(1,233)	(1,383)	8,496	5,201
Long term debt	(527)	(500)	(1,208)	(2,000)
Dividends paid	-	-	(3,176)	(3,173)
Purchase of capital and intangible assets	(1,111)	(1,185)	(2,439)	(2,890)
As at				
	Sep 30		Dec 31	Sep 30
	2009		2008	2008
(in thousands of dollars)	\$		\$	\$
Financial Position				
Working capital (<i>note 1</i>)		23,162	28,905	23,217
Total assets		112,875	116,544	107,786
Long term debt		5,930	6,494	6,980

Note 1: Gross profit, EBITDA, cash from operations and working capital are non-GAAP measures and are defined later in the MD&A under "Non-GAAP Measures".

OVERALL FINANCIAL PERFORMANCE

Revenue totalled \$30.6 million in the third quarter of 2009, a decrease of 8% compared to \$33.1 million in the third quarter of 2008. Net income for the third quarter was \$1.5 million or \$0.06 per diluted share, compared to \$3.1 million or \$0.12 per diluted share in the third quarter of 2008.

The third quarter results were, as expected, up over the second quarter earnings of \$0.02 per diluted share and revenue of \$28.8 million, but down from the strong results achieved in the third quarter of 2008 due to the continuing economic weakness. Factors such as reduced capital spending, tighter credit markets and lower commodity prices have resulted in lower revenue and margins.

For the first nine months of 2009, revenue totalled \$79.1 million, a decrease of 12% compared to \$90.0 million for the first nine months of 2008. Net income was \$0.7

million or \$0.03 per diluted share in the first nine months of 2009, compared to \$7.7 million or \$0.29 per diluted share in the first nine months of 2008.

Backlog totalled \$24.5 million at the end of the quarter, up from \$21.1 million at June 30, 2009 but down from \$27.8 million a year ago at September 30, 2008.

The Company continues to have a strong balance sheet with working capital of \$23.2 million, total assets of \$112.9 million and long term debt of \$5.9 million as at September 30, 2009.

In the first quarter of 2009, the Company's Board of Directors declared a cash dividend of \$0.12 per common share which was paid to shareholders in the second quarter. The dividend was consistent with the annual dividend declared in the prior year.

MARKET REVIEW**Downstream Petroleum**

Revenue from the downstream petroleum market was lower in both the third quarter and first nine months of 2009, compared to the same periods in 2008 primarily due to lower sales in the US market. In Canada, after a slow first quarter, downstream petroleum sales have rebounded to be relatively consistent with the second and third quarters of 2008. The Canadian downstream market differs from the US in that a majority of Canadian retail service stations are still owned and operated by the larger oil and gas and convenience store companies.

In the US, revenue from direct sales to major downstream customers was up modestly in the third quarter and up overall through the first nine months. This growth was however more than offset by lower sales through distributors and contractors whose customers, generally individual or small business owners, are more likely to be negatively impacted by the current economy.

Demand in Florida continues to fall below original expectations despite the state-imposed deadline of December 31, 2009 for all existing underground petroleum storage tanks to be upgraded to a secondary containment system. As at October 16, 2009, the Florida Department of Environmental Protection listed more than 5,000 tanks that still remain to be upgraded. It appears that many site owners will not make the necessary upgrades prior to the deadline and may instead be forced to shut down their fuelling operations.

Some of the growth in sales to major US downstream companies reflected the attraction of customers who previously purchased underground petroleum storage tanks fabricated from steel. There is increasing recognition by retail service station owners that steel petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties. Two of the key factors contributing to the growing recognition of internal corrosion are advances in the use of biofuels which create a more corrosive environment, as well as a decision by the Steel Tank Institute ("STI") to reduce the warranty on new STI licensed tanks to 10 years from 30 years effective January 1, 2008. ZCL's warranty against corrosion for its fibreglass tanks remains intact at 30 years.

While these factors create an opportunity to grow market share today, further advances in the use of biofuels should create additional opportunities in the future. It is estimated that the corrosion resistance, of more than half of the petroleum storage tanks in service in Canada and the US today, is not compatible with ethanol blends beyond E10 (a blend of 10% ethanol and 90% gasoline).

Water and Wastewater

In the water and wastewater market, the significant decrease in new construction has resulted in lower revenue in both the third quarter and first nine months of 2009, compared to the same periods in 2008. Prior to 2009, the Company has generated strong growth from this market and water and wastewater sales now account for roughly 20% of ZCL's total revenue.

ZCL has a very small, but growing share of the water and wastewater market and management continues to believe that the opportunities in this market are substantial. Customers are realizing that ZCL's watertight and easy to install fiberglass tanks are an ideal alternative to the concrete products that have traditionally dominated this market. The Company continues to push ahead on building brand recognition, pursuing partner opportunities and establishing new sales channels across the North American water and wastewater market.

Upstream, Industrial and Corrosion

The upstream, industrial and corrosion markets account for roughly 10% of ZCL's total revenue with a majority of the sales currently occurring in the western part of Canada and the US. With the lower commodity prices for oil and natural gas and reduced drilling and construction activity, total revenue from these markets was down significantly in both the third quarter and first nine months of 2009, compared to the same periods in the prior year.

OUTLOOK

For the fourth quarter of 2009, revenue and earnings are expected to be similar to the third quarter of 2009. With continuing weakness in the economy, the fourth quarter results are not expected to match the record results achieved in the fourth quarter of 2008. To mitigate the impact of the current economic weakness, the Company continues to manage both administrative and production costs, including reducing discretionary expenses, eliminating non-essential overtime and reducing production staffing levels or work hours. The improvement of earnings and margins through cost management and production efficiencies is an important strategic focus for ZCL.

International and Other Markets

Revenue from the Company's international operations was up in both the third quarter and first nine months of 2009, compared to the same periods in 2008. ZCL continues to focus on attracting new licensees for its tank manufacturing and Phoenix System™ lining technologies in the international marketplace.

The most recent licensee is Socomex S.A.R.L. of France. Socomex and ZCL entered into an agreement for ZCL's Phoenix System™ technology during the third quarter. The Company, as previously disclosed, also entered into a license agreement with JIZHOU ZHONGYI FRP Co., Ltd. of China for ZCL's tank manufacturing and Phoenix System™ technologies at the beginning of the third quarter. These agreements provide for license fees and ongoing royalties. They are also expected to result in increased revenue from the sale of ZCL proprietary products used in the manufacturing or installation of licensed products.

ZCL continues to pursue additional opportunities for its tank lining system in North America, Europe and South East Asia. Success was achieved in the first nine months of 2009 with new sites completed for customers in the US and more installations are planned for the fourth quarter of 2009. In addition, contracted installations in Hong Kong in 2009 are expected to be similar to 2008.

Management continues to believe that ZCL has strong growth opportunities in all of its markets and that the Company is positioned for growth, particularly when the economy turns around. With a strong balance sheet, ZCL is also well positioned to take advantage of strategic business development and acquisition opportunities that may become available.

RESULTS OF OPERATIONS

Revenue

(\$000's)	Third Quarter	Nine Months
2009	30,621	79,112
2008	33,140	89,951
% change	(8%)	(12%)

The lower revenue for the third quarter and first nine months of 2009 was the direct result of the continuing economic weakness in the US and Canada.

US Revenue

US revenue totalled \$19.2 million in the third quarter, a decrease of 10% compared to \$21.4 million in the third quarter of 2008. For the first nine months of 2009, US revenue totalled \$49.7 million, also a decrease of 10% compared to \$55.5 million for the first nine months of 2008. The decreases in both periods reflected lower sales in the downstream petroleum and water and wastewater markets, partially offset by a higher US to Canadian conversion rate which averaged 1.10 in the third quarter of 2009 (Nine Months 2009 - 1.17), compared to 1.04 in the third quarter of 2008 (Nine Months 2008 - 1.02).

In the US downstream market, which accounts for roughly 80% of total US revenue, sales directly to larger customers were up modestly in the third quarter and overall to date in 2009, compared to the same periods in 2008. However, sales through distributors and contractors, whose customers are more likely to be impacted by the current economy, were down significantly. The Company also had lower sales in Florida despite the state's December 31, 2009 tank upgrading deadline. In the water and wastewater market, a significant decrease in new construction resulted in lower revenue for both the third quarter and first nine months of 2009.

Canadian Revenue

Canadian revenue totalled \$11.5 million in the third quarter, a decrease of 3% compared to \$11.8 million in the third quarter of 2008. For the first nine months of 2009, Canadian revenue totalled \$29.4 million, a decrease of 15% compared to \$34.5 million for the first nine months of 2008. The lower Canadian revenue in both periods was due in large part to a significant decrease in revenue from the upstream, industrial and corrosion markets. These markets were impacted by lower commodity prices for oil and natural gas, and reduced drilling and construction activity.

In the Canadian downstream petroleum market, after a slow first quarter, revenue rebounded in the second and third quarters to be relatively consistent with the same

periods in 2008. Revenue from the Canadian water and wastewater market and the Company's international operations, which is included in Canadian revenue, was up in the third quarter and first nine months of 2009, compared to the same periods in 2008.

Gross Profit and Margin

	Third Quarter		Nine Months	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	(\$000's)	% of rev	(\$000's)	% of rev
2009	5,029	16.4%	10,283	13.0%
2008	7,053	21.3%	19,461	21.6%
% change	(29%)	(4.9%)	(47%)	(8.6%)

The decreases in gross profit for the third quarter and first nine months of 2009 resulted from lower revenue and other factors that contributed to a lower average gross margin on each dollar of revenue earned. A summary of the factors, and an estimate of their impact on gross margin, are provided in the table below.

	Third Quarter	Nine Months
Lower revenue/fixed costs	(1.0%)	(4.6%)
Sales mix/production costs	(3.2%)	(2.2%)
US\$ conversion rate	(0.7%)	(1.8%)
	(4.9%)	(8.6%)

Lower revenue/fixed costs – The Company's fixed manufacturing and selling costs, before the impact of foreign exchange rates, were down slightly in both the third quarter and the first nine months of 2009, compared to the same periods in 2008. The decrease in these costs was however less than the decrease in revenue and as a result fixed manufacturing and selling costs represented a greater portion of revenue in 2009, compared to the third quarter and first nine months of 2008.

Sales mix/production costs – The lower gross margins in 2009 also reflected increased price competition in certain markets and a change in sales mix since the margin the Company generates can vary by product type, market, customer type, region, etc. For additional information on changes in revenue mix see the "Revenue" or "Market Review" section of this MD&A. The margin changes from 2008 also reflected production inefficiencies due to lower manufacturing volumes in 2009 and changes in raw material costs.

US\$ conversion rate – A significant portion of the Company's revenue and expenses, including a large portion of the raw materials used by the Canadian

operations, are denominated in US\$'s and as a result fluctuations in the value of the US\$ can result in fluctuations in gross margin as a percentage of revenue. The higher value of the US\$ to date in 2009, compared to 2008, contributed to a higher gross profit, but a lower margin as a percentage of revenue, in both the third quarter and first nine months of 2009.

General and Administration

(\$000's)	Third Quarter	Nine Months
2009	1,551	5,595
2008	1,908	5,949
% change	(19%)	(6%)

The lower general and administration expenses for both periods reflected lower incentive compensation accruals and efforts to manage costs, partially offset by the impact of a higher US\$ conversion rate.

Foreign Exchange Loss (Gain)

(\$000's)	Third Quarter	Nine Months
2009	272	316
2008	(112)	(136)

The foreign exchange loss (gain) for each period primarily relates to the combination of fluctuations in the US\$ dollar conversion rate and the US\$ denominated monetary assets and liabilities held by the Company's Canadian and other operations which are considered integrated. The losses in 2009 reflected the US to Canadian dollar conversion rate decreasing to 1.09 as at September 30, 2009, from 1.16 as at June 30, 2009 and 1.22 at December 31, 2008. The gains in 2008 reflected the US dollar conversion rate increasing to 1.04 at September 30, 2008, from 1.01 at June 30, 2008 and 0.98 at December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2009, the Company had positive working capital (current assets less current liabilities) of \$23.2 million, compared to \$28.9 million at December 31, 2008 and \$23.2 million a year ago at September 30, 2008. The decrease of \$5.7 million compared to December 31, 2008 was largely due to the dividend of \$0.12 per share for a total of \$3.2 million paid in the second quarter of 2009. The decrease also reflected the lower US to Canadian dollar conversion rate, long term debt payments of \$1.5 million and capital expenditures funded from operations of \$2.4 million.

As at September 30, 2009, the Company had cash and cash equivalents of \$3.3 million (December 2008 - \$2.6 million) and approximately \$9.1 million (December 2008 -

Amortization

(\$000's)	Third Quarter	Nine Months
2009	958	2,966
2008	919	2,655
% change	4%	12%

The higher amortization expense in both periods resulted from the higher US dollar conversion rate and the impact of capital asset additions in 2008.

Income taxes

Income tax expense for the first nine months of 2009 represented 30.9% of the pre-tax income, compared to 26.0% for the first nine months of 2008 and 23.1% for fiscal 2008. The Company estimates that its income tax expense for 2009 will be between 29% and 33% of pre-tax income. The change from fiscal 2008 reflects a change in profitability mix to higher tax jurisdictions.

Other Comprehensive Income (Loss)

The table below details other comprehensive income (loss) before the impact of net income (loss) in the period.

(\$000's)	Third Quarter	Nine Months
2009	(3,578)	(7,116)
2008	1,331	2,524

The other comprehensive income (loss) for each period relates to changes in the US\$ conversion rate (see the "Foreign Exchange Loss (Gain)" section for details on the period-to-period changes) and the translation of the Company's US assets and liabilities into Canadian dollars. For accounting purposes, the assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date.

\$0.6 million) drawn against its revolving operating credit facility (bank indebtedness). The increase in bank indebtedness was primarily due to the factors noted above impacting working capital.

The Company's operating credit facility, which is provided by a Canadian chartered bank, was renewed during the second quarter of 2009. The maximum available under this facility was increased to \$20.0 million from \$15.0 million, subject to prescribed margin requirements related to a percentage of accounts receivable and inventory balances at a point in time and reduced by outstanding letters of credit. The facility is due on demand and matures on May 11, 2010.

The Company also renewed its term loan in the second quarter of 2009. The maturity date of the term loan was amended to May 31, 2011 and the facility was converted from a fixed to a revolving \$10.0 million term loan. As at September 30, 2009, \$5.0 million was drawn against this loan.

The Company was in compliance with all required bank covenants as at September 30, 2009 and as at the date of this report. Management believes that internally generated cash flows, along with the available revolving operating credit facility, will be sufficient to cover the Company's normal operating and capital expenditures for 2009 and beyond.

Cash Flows

(\$000's)	Third Quarter		Nine Months	
	2009	2008	2009	2008
Operating activities	3,377	4,406	(570)	4,586
Financing activities	(1,760)	(1,876)	4,238	35
Investing activities	(1,111)	(1,185)	(2,439)	(2,890)

The decrease in cash flows related to operating activities for both the third quarter and first nine months of 2009 was primarily due to the lower earnings and business activity to date in 2009.

The change in cash flows related to financing activities for the third quarter and nine month periods primarily reflected changes in advances from the Company's

operating loan ("bank indebtedness"). The Company's bank indebtedness balance was \$9.1 million at September 30, 2009, compared to \$10.3 million at June 30, 2009 and \$0.6 million at December 31, 2008. At September 30, 2008, the Company's bank indebtedness balance was \$5.4 million, compared to \$6.7 million at June 30, 2008 and \$0.2 million at December 31, 2007.

The cash flows used in investing activities in 2009 related to normal maintenance capital expenditures and the development of a new enterprise resource planning ("ERP") system that is classified as an intangible asset under development and not yet available for use.

Contractual Obligations

The Company's contractual obligations are consistent with the amounts disclosed in the Company's MD&A and audited consolidated financial statements for the year ended December 31, 2008 except as described below. During the first quarter of 2009, the Company entered into a lease agreement for new head office facilities. The annual lease payments for the first five years of this agreement are approximately \$0.4 million, with payment beginning upon completion of the facilities which is expected in the first half of 2010.

During the quarter ended June 30, 2009, the Company also entered into a financing agreement with a fair market value of just under \$1.0 million, maturing May 2012. The agreement is related to the development of the ERP system noted above.

SUMMARY OF QUARTERLY RESULTS

The table below presents selected financial information for the eight most recent quarters which 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 half of the year and particularly the first quarter. In addition, the Company is subject to fluctuations in the US to Canadian

dollar exchange rate since a significant portion of its revenue is denominated in US dollars. Over the past eight quarters, the US to Canadian dollar conversion rate has ranged from a low of 0.98 in the fourth quarter of 2007 to a high of 1.25 in the first quarter of 2009. For additional information on the impact of changes in the US to Canadian dollar exchange rate see note 14 of the Company's September 30, 2009 unaudited interim consolidated financial statements.

For the three months ended <i>(in thousands of dollars, except per share amounts)</i>	2009			2008			2007	
	Sep 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$
Revenue	30,621	28,810	19,681	38,223	33,140	33,014	23,797	30,013
Net income (loss)	1,488	559	(1,356)	3,674	3,135	3,202	1,353	2,766
Basic earnings (loss) per share	0.06	0.02	(0.05)	0.14	0.12	0.12	0.05	0.10
Diluted earnings (loss) per share	0.06	0.02	(0.05)	0.14	0.12	0.12	0.05	0.10

FINANCIAL INSTRUMENTS

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 they are appropriately managed. In addition to the discussion below, see note 14 of the Company's September 30, 2009 unaudited interim consolidated financial statements for information on the exposure to financial instruments risk. For additional information on the Company's exposure to risks see the "Risks and Uncertainties" section of this MD&A.

Foreign Exchange Risk

The Company operates on an international basis and is subject to foreign exchange risk and the most significant risk is with respect to the US dollar. The tables below provide an indication of ZCL's exposure to changes in the US to Canadian dollar conversion rate as at and for the nine months ended September 30, 2009.

Balance sheet exposure related to financial assets, net of financial liabilities, at September 30, 2009 was as follows:

(in thousands of US dollars)	\$
Self-sustaining operations	5,340
Other operations (Canadian and integrated)	1,823
Net balance sheet exposure	7,163

Operating exposure for the nine months ended September 30, 2009 was as follows:

(in thousands of US dollars)	\$
Sales	46,052
Operating expenses	44,782
Net operating exposure	1,270

Based on the exposures noted above, with other variables unchanged, a 20% decline in the Canadian dollar would have impacted net income for the nine months ended September 30, 2009 as follows:

(in thousands of US dollars)	\$
Net balance sheet exposure of other operations	233
Net operating exposure of foreign operations	163
Increase in net income	396

Other comprehensive income would have also increased an additional \$684,000 due to the net balance sheet exposure of self-sustaining operations.

An increase or strengthening of twenty percent in the Canadian dollar would have had an equal but opposite impact on net income and other comprehensive income.

Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents, restricted cash, other assets, and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents 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 receivable are managed through established credit monitoring activities and 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. At September 30, 2009, no single customer exceeded 10% of the consolidated trade accounts receivable balance.

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of \$18.8 million as at September 30, 2009 (December 31, 2008 - \$20.8 million). On a geographic basis as at September 30, 2009, approximately 44% (December 31, 2008 - 43%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 56% (December 31, 2008 - 57%) was due from US customers.

Payment terms are generally net 30 days. As at September 30, 2009, the percentages of trade accounts receivable were as follows: 74% current (December 31, 2008 - 56%), 18% past due 1 to 30 days (December 31, 2008 - 19%), 4% past due 31 to 60 days (December 31, 2008 - 9%), 4% past due 61 to 90 days (December 31, 2008 - 10%) and 0% past due greater than 90 days (December 31, 2008 - 6%).

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**Recent Accounting Pronouncements***Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new standard establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The standards concerning goodwill were unchanged from the standards included in the previous Section 3062. The Company adopted the standard effective January 1, 2009 and the adoption did not have a material impact on the Company's consolidated financial position or current and previous results of operations.

International Financial Reporting Standards

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

The Company, with the assistance of external advisors, commenced its conversion project in 2008. An IFRS project team has been established and a detailed conversion project plan has been prepared for 2009 and 2010 that will enable the Company to begin reporting its consolidated financial statements in accordance with IFRS on a comparative basis beginning January 1, 2011. The IFRS conversion project consists of three phases: scoping and diagnostic; analysis and development; and implementation and review.

The first phase, which has been completed, involved project planning, a high level review of key accounting policy differences between Canadian GAAP and IFRS, as well as determining policy choices and elections allowed under IFRS. The areas identified to have the highest potential to significantly impact the Company are business combinations, property, plant and equipment, intangible assets, the process for testing impairment of

assets, and initial adoption of IFRS under the provisions of IFRS 1 "First-Time Adoption of IFRS".

The second phase, which involves detailed analysis and evaluation of options available under IFRS and the financial impact of these options, is currently in progress. Information system requirements are also in the process of being evaluated as part of the conversion project.

Until the policy choices are made and analysis completed, the impact on the Company's future results of operations and financial position is not determinable. The Company anticipates that there will be a significant increase in disclosure resulting from the adoption of IFRS. The Company also expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

Business Combinations, Consolidated Financial Statements

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

RISKS AND UNCERTAINTIES

The Company is subject to a number of known and unknown risks, uncertainties and other factors that could cause the Company's actual future results to differ materially than those historically achieved and those reflected in forward-looking statements made by the Company. These factors include, but are not limited to, fluctuations in the level of capital expenditures in the petroleum and water and wastewater markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, the ability of management

to implement the Company's business strategy effectively, political and general economic conditions, the ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US and Canadian dollar exchange rates, accounts receivable risk, the ability to generate capital or maintain liquidity necessary to fund future operations, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in other documents filed with Canadian provincial securities authorities which are available to the public at www.sedar.com.

CONTROLS AND PROCEDURES

Management has evaluated whether there were changes in the Company's internal controls over financial reporting ("ICFR") during the most recent interim period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

No material changes were identified. There were also no material weaknesses relating to the design of ICFR at September 30, 2009 and no limitations on the scope of design of ICFR or disclosure controls and procedures.

OUTSTANDING SHARE DATA

As at November 3, 2009, there were 26,545,530 common shares and 960,667 share options outstanding. Of the

options outstanding, 129,667 are currently exercisable into common shares.

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 below are tables calculating or reconciling these non-GAAP measures where applicable.

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

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

Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital. Working capital is defined as current assets less current liabilities. Backlog is defined as the total value of orders that have not yet been included in revenue and 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.

Reconciliation of Non-GAAP Measures

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

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue	30,621	33,140	79,112	89,951
Manufacturing and selling costs	25,592	26,087	68,829	70,490
Gross profit	5,029	7,053	10,283	19,461
Gross margin (<i>Gross profit as a % of revenue</i>)	16.4%	21.3%	13.0%	21.6%

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

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Net income	1,488	3,135	690	7,690
Amortization expense	958	919	2,966	2,655
Interest expense	151	228	408	600
Income tax expense	609	975	308	2,703
EBITDA	3,206	5,257	4,372	13,648
<i>% of revenue</i>	10.5%	15.9%	5.5%	15.2%

The following table presents the calculation of cash from operations.

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Net income	1,488	3,135	690	7,690
Add items not affecting cash:				
Amortization expense	958	919	2,966	2,655
Future tax recovery	(210)	(120)	(278)	(100)
Stock-based compensation expense	103	23	299	80
Other	4	-	12	-
Cash from operations	2,343	3,957	3,689	10,325

The following table presents the calculation of working capital.

(in thousands of dollars)	As at		
	Sep 30, 2009	Dec 31, 2008	Sep 30, 2008
	\$	\$	\$
Current assets	49,283	47,845	46,861
Current liabilities	26,121	18,940	23,644
Working capital	23,162	28,905	23,217

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's objectives for revenue growth and EBITDA (earnings before interest, taxes, depreciation and amortization), business opportunities in the petroleum, water and wastewater, international and other markets, efforts to reduce administrative and production costs, manage production levels, anticipated capital expenditure trends, activity in the petroleum and other industries and markets served by the Company and the sufficiency of cash flows and credit facilities available to cover normal operating and capital expenditures. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the industries the Company serves generally.

These factors include, but are not limited to, fluctuations in the level of capital expenditures in the petroleum and water and wastewater markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US and Canadian dollar exchange rates, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in this document and other documents filed with Canadian provincial securities authorities. These documents are available to the public at www.sedar.com.

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

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

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