



ZCL Composites Inc.

Management's Discussion and Analysis

For the Year Ended December 31, 2007

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

March 17, 2008

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") of the results of operations and cash flows for the year ended December 31, 2007, and of the financial position as at December 31, 2007, should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2007, available on SEDAR at www.sedar.com, as well as the Message to Shareholders included in the Annual Report. 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.

For the purposes of this MD&A, references to "Canadian operations" shall mean ZCL's Canadian operations and non-U.S. foreign subsidiaries including Parabeam Industries BV located in the Netherlands. References to "Xerxes" and "U.S. operations" shall mean operations acquired pursuant to the acquisition of Xerxes Corporation on February 22, 2007; and, references to "ZCL" and the "Company" shall mean the consolidated Canadian and U.S. operations. The acquisition of Xerxes had a significant positive impact on the consolidated financial results for the year ended December 31, 2007.

The Company's primary operating segment 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 include fibreglass home heating oil tanks and the manufacture of Parabeam®, a three-dimensional glass fibre material that is a key input into ZCL's double-wall tank and tank lining system. These other operating activities are currently not significant to ZCL's operations and therefore the Company does not disclose the results of these operations separately. As noted above, with the acquisition of Xerxes, separate disclosure is provided for revenue generated from the Canadian and U.S. operations.

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, business opportunities in the petroleum, water/wastewater and other industries, 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

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

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 most recent Annual Information Form, and elsewhere in the Company's MD&A for the year ended December 31, 2007 and 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 these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

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 and working capital are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies.

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

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

Working capital is defined as current assets less current liabilities.

Change in Year End

The Company changed its fiscal year end from March 31 to December 31 in 2006. The discussion and analysis included in this document primarily compares the audited results for the twelve months ended December 31, 2007 to the unaudited results for the twelve months ended December 31, 2006 as management considers this comparison more relevant. A summary discussion is also included that compares the audited results for the twelve months ended December 31, 2007 to the audited results for the nine months ended December 31, 2006. The financial results for the twelve

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

months ended December 31, 2006 is comprised of the audited financial results for the nine months ended December 31, 2006 plus the unaudited results for the three months ended March 31, 2006. A table reconciling the results for the twelve months ended December 31, 2006 has been provided later in the MD&A.

BUSINESS PROFILE

ZCL is one of North America's leaders in the design, manufacture, and supply of fibreglass liquid storage systems to the petroleum industry. The Company also provides storage tanks to the chemical and pulp and paper industries and is developing a growing presence in the water and wastewater industry. Until earlier this year, the Company primarily operated in Canada with its key manufacturing facilities located in Alberta and Quebec. On February 22, 2007, the Company expanded into the U.S. with the acquisition of Xerxes, a company also involved in the design, manufacture and marketing of fibreglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries. Xerxes has four manufacturing facilities located in California, Texas, Maryland and Iowa. The acquisition of Xerxes substantially increased the Company's revenues and operations as Xerxes is a similar size to ZCL.

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 private placement consisted of the underwriters purchasing 4,000,000 subscription receipts at a price of \$10.00 per subscription receipt for total gross proceeds of \$40.0 million (\$37.4 million in net cash proceeds after deducting expenses of the offering of \$2.6 million). Upon the closing of the Xerxes acquisition on February 22, 2007, each holder of subscription receipts automatically acquired one common share of ZCL in exchange for every one subscription receipt held. 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 of the term loan was repaid during the first quarter of 2007.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

OVERALL FINANCIAL PERFORMANCE

The Company achieved strong growth and record revenue and earnings for the year ended December 31, 2007. The growth was driven by the acquisition of Xerxes on February 22, 2007. Revenue for 2007 totalled \$104.8 million, an increase of 90% compared to \$55.1 million for the twelve months ended December 31, 2006. The new U.S. operations contributed \$55.9 million to total revenue in 2007. Revenue from the Canadian operations for 2007 was \$48.8 million, down 11% compared to \$55.1 million a year earlier. A majority of the decrease occurred in the first half of the year. The lower Canadian revenue reflected a variety of factors including a decrease in natural gas drilling and increasing costs in the oil and gas sector.

Net income was \$7.5 million in 2007, an increase of 33% compared to \$5.7 million for the 12 months ended December 31, 2006. Net income for the year would have been higher but for costs of \$1.7 million (\$1.1 million after tax) largely resulting from the acquisition of Xerxes. Diluted earnings per share were also a record at \$0.29 for 2007, compared to \$0.27 in the same period last year.

The revenue and EBITDA results achieved for 2007 were within the target ranges disclosed in November 2007 when the third quarter results were released to shareholders. Revenue for 2007 of \$104.8 million was within the target range of \$104 million to \$107 million and EBITDA of \$14.6 million was within the target range of \$14 million to \$16 million.

The Company also started and finished the year in a strong financial position. At December 31, 2007, ZCL had positive working capital of \$20.6 million, \$94.4 million in total assets and long-term debt of \$8.9 million including the current portion.

OUTLOOK

The Company remains committed to its long-term profitable growth objective of 15% to 20% per annum. The 2008 revenue target is to achieve growth of at least 20%. This target takes into account the positive impact of a full year of the U.S. operations, compared to about ten months in 2007. On the downside, it also assumes a lower U.S. to Canadian dollar conversion rate of \$1.00 in 2008, compared to an average rate of \$1.05 in 2007. The Company also has established a medium-range objective to improve its EBITDA margin to 20% of revenue. The target for 2008 is to achieve an EBITDA margin of 16% of revenue, compared to an actual EBITDA margin of 13.9% of revenue in 2007.

The Company's consolidated order backlog as of December 31, 2007 was \$16.4 million, compared to \$18.3 million as of September 30, 2007. The decrease reflects the normal seasonality of the Company's business.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

The Company is optimistic about achieving its long-term growth targets as increasing environmental awareness is creating a growing demand for ZCL's fibreglass liquid storage solutions. Management's primary areas of focus for 2008 include the following:

- Maintaining ZCL's leadership position in the Canadian downstream petroleum market by continuing to build and foster strong customer relationships.
- Increasing market share in the U.S. downstream petroleum market. ZCL should benefit from a recent decision by the Steel Tank Institute ("STI") to reduce the warranty on STI licensed steel tanks to 10 years from 30 years effective January 1, 2008. ZCL's warranty remains intact at 30 years.
- Capitalizing on the opportunity resulting from new regulation, including a regulation in the state of Florida that requires all existing single-wall underground storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. It is estimated that there are 10,000 to 15,000 single-wall petroleum tanks in Florida that still need to be upgraded or replaced over this period. That represents significant short-term demand, given that demand for the entire U.S. market is typically 12,000 to 15,000 tanks a year.
- Continuing to develop the Phoenix System®, a tank lining system that allows a single-wall tank to be upgraded to a corrosive resistant secondary contained storage tank while still in the ground. The Company is developing a market for this product in Asia through its relationship with Chevron Hong Kong Limited (Caltex). To date, the Company has been awarded 11 sites by Caltex. The Phoenix System® is also a unique and ideal alternative to tank replacement in the state of Florida.
- Increasing the Company's presence in the water and wastewater market. Currently the Company generates about 25% of its U.S. revenue from water and wastewater but only has a nominal share of this substantial market traditionally dominated by concrete products. The Company's new U.S. operations have been able to generate annual growth from this market over the past few years of 30% plus, without a solely dedicated effort. In 2008, the Company's sales force is being expanded and resources are being dedicated to this market.
- Continuing to integrate the Canadian and new U.S. operations to capture additional technological enhancements, manufacturing efficiencies and cost savings. While synergies have been achieved, additional opportunities exist including the introduction of Parabeam into the U.S. double-wall tank.

In addition to the above, the Company has a strong balance sheet and is well positioned to take advantage of strategic and accretive acquisition opportunities that may arise.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

SELECTED ANNUAL FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	December 31 2007 12 months	December 31 2006 12 months *	December 31 2006 9 months	March 31 2006 12 months
Operating Results				
Canadian revenue (<i>note 1</i>)	\$ 48,834	\$ 55,060	\$ 41,399	\$ 46,166
US revenue	55,949	-	-	-
Revenue	104,783	55,060	41,399	46,166
Gross profit (<i>note 2</i>)	22,301	12,867	9,819	9,290
General and administration	7,703	3,274	2,595	2,255
Amortization	3,572	1,655	1,269	1,497
Financing expense	1,073	47	-	266
Income tax provision	2,438	2,540	1,899	1,848
Net income from continuing operations	7,515	5,351	4,056	3,424
Net income from discontinued operations	-	319	-	319
Net income	7,515	5,670	4,056	3,743
EBITDA (<i>note 2</i>)	14,598	9,593	7,224	7,035
Basic earnings per share				
Net income from continuing operations	0.29	0.26	0.19	0.19
Net income	0.29	0.27	0.19	0.20
Diluted earnings per share				
Net income from continuing operations	0.29	0.26	0.18	0.17
Net income	0.29	0.27	0.18	0.18
Cash Flow				
Cash from operations (<i>note 3</i>)	10,112	7,309	5,299	5,779
Issue of common shares, net of transaction costs	38,091	3,564	1,590	2,102
Dividends paid	(2,600)	(2,081)	(2,081)	(1,438)
Additions to property, plant and equipment	(3,791)	(1,630)	(1,495)	(921)
Acquisitions	(55,659)	-	-	(2,597)
As at	December 31 2007	December 31 2006	December 31 2006	March 31 2006
Financial Position				
Working capital	20,642	18,306	18,306	15,119
Total assets	94,368	41,415	41,415	36,557
Long term debt	8,938	-	-	-

* Figures were compiled using the audited December 31, 2006 results and the unaudited interim quarterly March 31, 2006 results. See reconciliation schedule at the end of this MD&A.

Note 1: Includes revenue from the Company's foreign subsidiaries, Parabeam Industries BV (Netherlands) and VRB & Associates SRL (Barbados).

Note 2: Gross profit and EBITDA are non-GAAP measure and are defined earlier under Non-GAAP Measures.

Note 3: Cash from operations is defined as cash flows from operating activities before changes in non - cash working capital.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

RESULTS OF OPERATIONS

Twelve Months Ended December 31, 2007, compared to the Twelve Months Ended December 31, 2006

As noted above, the Company changed its fiscal year end from March 31 to December 31 in 2006. The following analysis compares the results for the audited twelve months ended December 31, 2007 to the unaudited twelve months ended December 31, 2006 as management considers this information more relevant. A discussion of the audited results for the twelve months ended December 31, 2007 compared to the audited results for the nine months ended December 31, 2006 is included later in this MD&A.

Revenue

Revenue for the 2007 year was \$104.8 million, up 90% from \$55.1 million in 2006. The new U.S. operations acquired in February 2007 added \$55.9 million to total revenue this year. Revenue from Canadian operations for the year ended 2007 was \$48.8 million, down 11% from \$55.1 million a year earlier with a majority of the decrease occurring in the first half of the year. The lower Canadian revenue reflected a variety of factors including a decrease in natural gas drilling and increasing costs in the oil and gas sector.

The Company's revenue is subject to fluctuations in the value of the Canadian dollar. As noted above, revenue generated by the U.S. operations totalled \$55.1 million in 2007 (2006 – nil) and this revenue was converted into Canadian dollars at a weighted average exchange rate of \$1.05. During 2007, the Canadian dollar strengthened significantly relative to the U.S. dollar as demonstrated by the average U.S. dollar conversion rate moving from approximately \$1.17 in the first quarter to \$0.98 in the fourth quarter of 2007. While the strengthening of the Canadian dollar had a negative impact on revenue generated in 2007, it had a limited impact on the overall operating results as the net earnings generated by the U.S. operations were naturally hedged by materials denominated in U.S. dollars purchased by the Canadian operations. For further clarification, the revenue generated in U.S. dollars was similar to the total expenses incurred that were denominated in U.S. dollars. On a go forward basis, there can be no assurance that this natural hedge will continue to occur and as a result the Company's earnings may be positively or negatively impacted by fluctuations in the value of the Canadian dollar.

Gross Profit and Margin

For the year ended December 31, 2007, gross profit was \$22.3 million, up 73% from \$12.9 million a year earlier. Gross margin was 21.3% of revenue for the year ended 2007, compared with 23.4% of revenue in 2006. The lower gross margin was due in part to the fixed manufacturing and selling being absorbed over a lower Canadian revenue base. The margin decrease was also due to a lower than usual margin on the sale of Xerxes finished good inventory acquired at the acquisition date. Upon acquisition, Xerxes finished goods inventory was recorded at selling price less costs to sell the inventory. This resulted in an increase of \$1.1 million to the carrying value of inventory that was charged to manufacturing costs as the inventory was sold in 2007. Excluding this inventory adjustment, the gross margin for 2007 would have been 22.3%.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

General and administration, Amortization, and Financing expense (income)

General and administrative expenses were \$7.7 million in 2007, up 135% from \$3.3 million in the prior year primarily due to the inclusion of the new U.S. operations. The increase also reflects \$0.6 million of costs resulting from the acquisition of Xerxes.

Amortization totalled \$3.6 million in 2007, up 116% from \$1.7 million in the previous year. The overall level of amortization increased due to higher capital spending and the acquisition of Xerxes.

Financing expense was \$1.1 million in 2007, compared to a negligible amount in the prior year. The most significant component of financing expense was interest on the long-term debt used to acquire Xerxes. The 2007 expense also included a foreign exchange loss of \$0.3 million on U.S. forward contracts closed during the first quarter. These contracts were purchased to mitigate the currency risk associated with the Xerxes acquisition. No forward exchange contracts were entered into over the remainder of 2007.

Income taxes

Income tax expense represented 24.5% of pre-tax income in the twelve month period of 2007, compared with 32.2% of pre-tax income in the twelve month period of 2006. The Company's statutory Canadian tax rate was approximately 32.55% and U.S. tax rate was approximately 38.0%. The lower effective income tax rate for 2007 reflects financing transactions related to the acquisition of Xerxes.

Net income and Earnings per Share

Net income for 2007 was \$7.5 million, up 33% from \$5.7 million in the prior year. The increase reflects the positive impact of the Xerxes acquisition. Basic earnings per share were \$0.29 in 2007, up from \$0.27 in the prior year and diluted earnings per share were \$0.29 in 2007, up from \$0.27 in 2006. The lower increase in earnings per share relative to the 33% increase in net income reflects the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

Other Comprehensive Loss

The Company had other comprehensive loss ("OCL") of \$8.7 million for the year ended December 31, 2007. The OCL primarily relates to the decrease in the value of the U.S. dollar relative to the Canadian dollar and the translation of the Xerxes/U.S. operations into Canadian dollars. The operations are classified as self-sustaining foreign operations for accounting purposes where assets and liabilities are translated at the exchange rate in effect at the balance sheet date in accordance with GAAP. The OCL of \$8.7 million reflects the U.S. dollar translation rate decreasing from \$1.17 at the date of acquisition of Xerxes on February 22, 2007 to \$0.98 at December 31, 2007.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

Year ended December 31, 2007, compared to the Nine Months ended December 31, 2006

The Company's financial results for the year ended December 31, 2007 varied from the nine month period ended December 31, 2006 due to the same factors noted above for the twelve month-over-twelve month comparison. The revenue, expenses and earnings for the twelve months ended December 31, 2007 were also higher compared to the nine month period due to the extra three months. The audited financial statements and the tables included elsewhere in this MD&A outline the Company's operating results for the twelve months ended December 31, 2007 and the nine months ended December 31, 2006. A detailed discussion and analysis of the twelve versus nine month period has not been provided as there is no additional relevant information to be provided. Further, management believes that it is not relevant to compare the results for periods of different lengths.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Unaudited Results

(in thousands of dollars, except per share amounts)

	Dec 31/07	Sep 30/07	Jun 30/07	Mar 31/07	Total
	\$	\$	\$	\$	\$
Total revenue	30,013	31,293	28,532	14,945	104,783
Net income	2,766	2,546	2,126	77	7,515
Basic earnings per share (note 1)	0.10	0.10	0.08	-	0.29
Diluted earnings per share (note 1)	0.10	0.10	0.08	-	0.29

	Dec 31/06	Sep 30/06	Jun 30/06	Mar 31/06	Total
	\$	\$	\$	\$	\$
Total revenue	14,873	13,974	12,552	13,661	55,060
Net income	1,488	1,611	957	1,614	5,670
Basic earnings per share (note 1):					
Net income from continuing operations	0.07	0.08	0.05	0.07	0.26
Net income	0.07	0.08	0.05	0.08	0.27
Diluted earnings per share (note 1):					
Net income from continuing operations	0.07	0.07	0.04	0.06	0.26
Net income	0.07	0.07	0.04	0.07	0.27

Note 1: Quarterly basic and diluted earnings per share do not total to annual basic and diluted earnings per share due to the timing of the calculation.

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first half of each year. The revenue and earnings for the eight quarters shown above were also impacted by the acquisition of Xerxes U.S. operations acquired on February

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

22, 2007. These new U.S. operations doubled the Company's revenue and operations. The Company is also subject to fluctuations in the U.S. exchange rate with the addition of the U.S. operations that can result in a positive or negative impact on the Company's earnings.

FOURTH QUARTER

The Company's revenue, gross profit, general and administration expenses, amortization and net income essentially doubled in the fourth quarter of 2007 relative to the same quarter in 2006. The increase for each item was primarily due to the new U.S. operations which resulted from the acquisition of Xerxes on February 22, 2007. Both basic and diluted earnings per share were also strong in the fourth quarter of 2007 compared to the same quarter of 2006; however the increases did not reflect the full doubling of net income due to the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

Other items of note in the fourth quarter include a 5% decrease in Canadian revenue due to lower activity in the oil and gas sector. The gross margin was strong in the fourth quarter of 2007 at 24.0% but slightly below 24.8% in the fourth quarter last year. The effective income tax rate for the fourth quarter of 2007 was 32.7%, compared to 30.0% in the same quarter of 2006. The higher rate reflects the income generated by the U.S. operations and the higher U.S. tax rate of approximately 38.0% compared to the statutory Canadian tax rate of approximately 32.6% (2006 – 32.3%) partially offset by financing transactions related to the acquisition of Xerxes. Other comprehensive loss for the fourth quarter of 2007 was \$589,000 primarily due to the U.S. dollar translation rate decreasing from approximately \$0.99 at September 30, 2007 to \$0.98 at December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2007, the Company had positive working capital (current assets less current liabilities) of \$20.6 million, compared with \$18.3 million at December 31, 2006. Current assets increased by \$9.7 million while current liabilities increased by \$7.3 million largely reflecting the additional assets and liabilities from the Xerxes acquisition. At the end of the year, the Company had cash and cash equivalents of \$2.0 million, compared to \$7.8 million a year ago. The Company also has a revolving operating credit facility, provided by a chartered bank, available to a maximum of \$15.25 million subject to meeting prescribed margin requirements. The Company was in compliance with all required bank covenants. Management believes that internally generated cash flows, along with the available revolving operating credit facility, will be sufficient to cover the Company's normal operating and capital expenditures in 2008. Capital expenditures to maintain the Company's current capacity in 2008 are expected to be comparable to 2007 levels.

On February 22, 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 consisted of the underwriters purchasing 4,000,000 subscription receipts at a price of \$10.00 per subscription receipt for total gross proceeds of \$40.0 million (\$37.4 million in net cash proceeds after deducting expenses of the offering of \$2.6 million). Upon the closing of the Xerxes acquisition on February 22, 2007, each holder of subscription receipts automatically

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

acquired one common share of ZCL in exchange for every one subscription receipt held. 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 of the financing was repaid in the first quarter of 2007. The Company also borrowed against its operating line of credit to repay Xerxes' bank indebtedness of \$6.3 million.

During 2007, the Company generated cash flow from operating activities of \$10.1 million, before changes in non-cash working capital. This cash flow and the cash on hand at the end of 2006 of \$7.8 million was used to repay the \$6.3 million bank indebtedness resulting from the acquisition of Xerxes, pay a dividend of \$2.6 million on April 4, 2007 and repay long-term debt totalling \$1.0 million. The cash flow was also used to fund property, plant and equipment additions totalling \$3.8 million and the acquisition of the operating assets of Cara Concrete Products Ltd. for \$3.0 million.

Contractual Obligations

To establish a captive insurance company, Radigan Insurance Inc. ("Radigan"), the Company supplied a U.S. \$500,000 Letter of Credit to secure claims in favour of the Commissioner of Insurance for the State of Montana. Radigan provides insurance protection to product warranties, patent infringements, deductible buy down for the U.S. workers' compensation program and the general liability coverage for the U.S. operations. As at December 31, 2007, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment were \$8,103,000. The Company has purchase obligations to acquire equipment in the amount of \$699,000 at December 31, 2007 that are expected to be paid in the first quarter of 2008.

Contractual obligations due over the next five years and thereafter are as follows:

(in thousands of dollars)	2008	2009	2010	2011	2012	2013 and Thereafter	Total
Long term debt	\$ 2,000	\$ 6,938	\$ -	\$ -	\$ -	\$ -	\$ 8,938
Operating leases	1,779	1,637	1,115	953	861	1,758	8,103
Purchase obligations	699	-	-	-	-	-	699

Pension obligation

The Company's defined benefit pension plan acquired as a result of the Xerxes acquisition is underfunded by \$284,000 at December 31, 2007. Management expects to fully fund this shortfall in 2008 upon final settlement of the plan through the transfer of the assets and liabilities to a private insurance company. As part of the settlement process, participants will have the option of receiving a lump sum payment or a guaranteed annuity contract that would be purchased by the plan from a private insurance company. The expected benefit payments to be made by the plan for 2008 to the participants are approximately \$98,000, assuming no lump sum payments, or \$614,000, assuming approximately one half of the participants opt for lump sum payments.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

At December 31, 2007, the plan's assets of \$1.8 million were invested in a money market fund holding approximately 26.5% of its assets in non-bank Asset Backed Commercial Paper ("ABCP"). There is a risk that a portion of the plan's assets may not be readily convertible to cash due to the funding issues relating to the sub-prime market in the United States. This is considered a very conservative fund invested in high quality financial instruments rated in the top two grades with dollar weighted average maturities of less than 90 days. Average maturities of the fund for the year ended December 31, 2007 was 47 days.

TRANSACTIONS WITH RELATED PARTIES

A corporation controlled by a director of the Company provided trucking services to the Company during 2007. This director resigned from the Board effective September 18, 2007 and is therefore no longer a related party. Included in manufacturing and selling costs in the consolidated statements of income in 2007 was \$428,000 (2006 - \$473,000) related to these trucking services. The transactions were recorded at the exchange amount being normal commercial rates for the services. Accounts payable and accrued liabilities at December 31, 2007 included \$22,000 (December 31, 2006 - \$26,000) owing to the corporation.

In addition, certain of the Company's manufacturing components were purchased from a corporation who's Chairman and CEO became a director of the Company effective May 15, 2007. Purchases from this corporation for 2007, included in manufacturing and selling costs in the consolidated statements of income, totalled \$103,000 (2006 - \$165,000). Purchases from May 15, 2007 to the end of the year totalled \$53,000. The transactions are recorded at the exchange amount being normal commercial prices for the components. Accounts payable and accrued liabilities at December 31, 2007 included \$1,000 (2006 - \$3,800) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Financial instruments, equity and comprehensive income

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges; Section 1530, Comprehensive Income; and Section 3251, Equity, prospectively without restatement of prior periods.

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income calculated in accordance with GAAP. The adoption of this standard had no impact on the Company's retained earnings as at January 1, 2007.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

Subsequent to the adoption of this new standard, the Company recorded unrealized losses on the translation of self-sustaining foreign operations during the fourth quarter of \$0.6 million (\$8.7 million for the year ended 2007) in other comprehensive loss.

Under Section 3855, financial assets and liabilities are classified as either held for trading, available-for-sale, loans and receivables, investments held to maturity, and other financial liabilities. Financial assets classified as held for trading and available-for-sale are measured on the balance sheet at fair value. Subsequent change in the fair value of held for trading financial assets is recognized into net income immediately. Changes in the fair value of financial assets available-for-sale are recorded in comprehensive income until the investment is derecognized or impaired at which time amounts would be recorded to net income. Loans and receivables, investments held to maturity and other financial liabilities are measured on the balance sheet at amortized cost. All derivative instruments of the Company, including those embedded in other financial instruments, are recorded at fair value and classified as held for trading.

On adopting Section 3855 and 3861, the Company classified its financial assets and liabilities of cash and cash equivalents, accounts receivable, other assets, bank indebtedness and accounts payable and accrued liabilities as held for trading financial instruments. The adoption of the new standards did not have a material impact on the presentation of the financial statements. The Company also classified long term debt as other financial liabilities. The Company has not recorded any financial instruments as available-for-sale, loans or receivables, or held to maturity investments during the year.

For financial assets and liabilities classified as other, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as part of the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest method and recorded within interest expense.

Prior to the adoption of the new standards, derivatives embedded in other financial instruments were not accounted for separately from the host instrument. On adopting the new standards, the Company performed a review of all of its contracts to identify any embedded derivatives. No significant embedded derivatives were identified.

Section 3865 replaces and expands prior guidance on hedging relationships by prescribing when and how hedge accounting may be applied. Application of hedge accounting is optional. During the year, the Company entered into foreign currency forward contracts, the price of which was denominated in U.S. dollars. These derivative contracts, not accounted for as hedges, were marked to market and changes in the market value were recorded in income or expense when the changes occurred. As at December 31, 2007, there were no outstanding contracts as they were all closed out within the first quarter. The adoption of the new standard did not have a material impact on the presentation of the financial statements.

Section 3251 requires separate presentation of changes in equity for the period from net income, other comprehensive income, retained earnings, contributed surplus, share capital and reserves and separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income (loss), contributed surplus, share capital and reserves.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

Accounting changes

Effective January 1, 2007, the Company adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively unless impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an interim and annual basis, of a description and the impact on the Company's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Company's consolidated financial position or on the results of its operations.

Recent Accounting Pronouncements

In October 2006, the CICA issued Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company's interim and annual reporting periods beginning January 1, 2008. The Company expects there will be incremental disclosures required regarding the Company's capital and how it is managed.

The CICA also issued Section 3862, Financial Instruments – Disclosure and 3863, Financial Instruments – Presentation in October 2006. These Sections will effectively replace existing Section 3861, Financial Instruments – Disclosure and Presentation effective for the Company's interim and annual reporting periods beginning January 1, 2008. Section 3862 requires disclosures by class of financial instruments that enable users to evaluate the significance of financial instruments for the Company's financing position and performance. Disclosures are also required of qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of the Company's exposure to the risks arising from financial instruments, specifically credit risks, liquidity risks and market risks. Quantitative disclosures must also include a sensitivity analysis for each type of market risk the Company is exposed to and how net income and other comprehensive income would be affected. Section 3863 carries forward the presentation requirements of 3861 already adopted by the Company. As a result, the Company expects the only effect of the new standards will be additional disclosures regarding the significance of financial instruments for the Company's financing position and performance and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

In June 2007, the CICA issued Section 3031, Inventories. The new standard 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 standard also requires the consistent use of either the FIFO (first in, first out) or weighted average cost formula to measure inventories and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosure is required for the amount of inventories recognized as an expense, as well as any inventory write-down or reversals. The standard is effective for the Company's interim and annual reporting periods beginning

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

January 1, 2008. The Company does not expect the new standard to have a material impact on its consolidated financial position or on its results of operations.

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of adopting the standard.

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards ("IFRS"). As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and the Canadian convergence initiative is just beginning as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS.

CRITICAL ACCOUNTING ESTIMATES

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

With the acquisition of Xerxes, certain estimates were required in determining the fair values of the acquired assets and liabilities and the remaining useful lives of finite life intangible assets. Management used an external valuator to assist in developing the key assumptions and resulting fair value estimates. Management concluded that the fair value of acquired assets and liabilities was substantially complete at the end of the second quarter. Subsequently, additional information related to income taxes and pension liabilities was identified that required an adjustment to certain of the fair values at year end. These final adjustments resulted in a decrease to other long term assets and future tax liabilities of \$474,000 and \$589,000 respectively and an increase to non-cash working capital, and accrued pension liability, of \$315,000 and \$168,000 respectively for a net decrease to recorded goodwill of \$262,000.

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

Property, plant and equipment, deferred costs, and intangible assets with finite lives are recorded at cost less accumulated amortization. Goodwill and indefinite life intangible assets are recorded at cost. The unamortized balances, or carrying values, are regularly reviewed for recoverability or tested for impairment whenever events or circumstances indicate that these amounts exceed their

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

fair values. The valuation of these assets is based on estimated future net cash flows, taking into account current and future industry and other conditions. An impairment loss would be recognized for the amount that the carrying value exceeds the fair value.

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

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

Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of amortization. The estimates of cash flows used to assess the potential impairment of these assets are subject to measurement uncertainty. No impairment loss or write down was required to be recognized in either the twelve months ended December 31, 2007 or the nine months ended December 31, 2006. A significant change in these estimates and judgments could result in a material change to amortization expense or impairment charges.

Self-insured Liabilities

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

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to thirty years for corrosion, if the products are properly installed and are used solely for storage of listed liquids. The Company's complete storage systems marketed under the Prezerver™ trademark carry an enhanced ten year warranty covering product replacement and pollution protection up to the limits allowed under the policy. Until December 1, 2006, the Prezerver warranty was covered by insurance underwritten by a major international insurer. Effective, December 1, 2006, the Company decided to form its own insurance captive to insure the Prezerver program. In the ten years the Company has been involved with the Prezerver program, a single claim has not been registered. Additionally, a number of component materials and parts are similarly warranted by their manufacturers, thereby reducing the Company's exposure to warranty claims.

The Company provides for warranty obligations based on a review of products sold and historical warranty cost experience. Provisions for warranty costs are charged to manufacturing and selling

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

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

Allowance for Doubtful Accounts

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

Financial and Other Instruments

The consolidated financial statements are reported in Canadian dollars, including the results of the Company's foreign subsidiaries: U.S. - Xerxes, Netherlands - Parabeam Industries BV and Barbados - VRB. Certain transactions, revenue and expenses are generated or incurred in other currencies, largely United States dollars and Euros. The Company's global operations gives rise to the risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The U.S. operations account for approximately one half of the Company's revenues and expenses being conducted in U.S. dollars. The Company's Canadian operations also purchases materials that are denominated in U.S. dollars and in 2007 these purchases approximated the earnings generated by the U.S. operations resulting in a natural hedge of the Company's overall earnings. While the Company's overall earnings were generally naturally hedged against fluctuations in the U.S. – Canadian dollar conversion rate, the gross amount of revenue and expenses can fluctuate based on changes in the conversion rate. For example, in 2007 the average conversion rate was \$1.05 and a \$0.01 change in this rate would have increased or decreased the reported U.S. revenue amount of \$55.9 million by approximately \$0.6 million. On a go forward basis, there can be no assurance that this natural hedge will continue to occur and as a result the Company's earnings may be positively or negatively impacted by fluctuations in the value of the Canadian dollar.

Other than the foreign currency contracts entered into when Xerxes was acquired, the Company does not currently use financial instruments to hedge risks associated with fluctuating foreign exchange rates. During the year, the Company entered into foreign currency contracts denominated in U.S. dollars to hedge the purchase price of Xerxes. Such derivative contracts, not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. As at December 31, 2007, there were no outstanding contracts as they were all closed out within the year.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company, including its consolidated subsidiaries, is made known to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2007, an evaluation was conducted by and under the supervision of management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external reporting purposes in accordance with GAAP. As at December 31, 2007, an evaluation was conducted using the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), by and under the supervision of management, including the CEO and CFO, of the Company's design of ICFR. Based on this evaluation, the CEO and CFO have concluded the design of the Company's ICFR provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated whether there were changes in the Company's ICFR during the most recent interim period ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified through management's evaluation in the fourth quarter, which also included an evaluation of the design of Xerxes' ICFR. During 2007, the Company added additional management personnel to its accounting and financial reporting team. The Company also enhanced its review processes over financial reporting and updated the documentation of certain policies. In addition, the Company's Corporate Disclosure Policy and Code of Ethics and Business Conduct Policy were updated and enhanced during 2007.

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

Limitations on the Effectiveness of Disclosure Controls and the Design of ICFR

The Company's management, including the CEO and CFO, do not expect that the Company's disclosure controls and procedures and ICFR will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system objectives will be met. The likelihood of achievement is affected by limitations inherent in all internal control systems. These inherent limitations include the realities that judgements or decision-making can be faulty, and that breakdowns occur because of simple errors or mistakes. Controls can also be circumvented in numerous ways including collusion, overrides and deception. Another inherent limitation in any system of ICFR is the increasing complexity of GAAP. With the changing standards, growing rules-based guidance and interpretations, increasing abundance of Canadian, U.S. and International standards and the varying interpretations of GAAP by professional accountants and regulatory authorities it is possible that the judgements and interpretations made by the Company may differ from that of others. In addition to the inherent limitations, the design of a control system must reflect that there are resource constraints, and the expected benefit of controls must be considered relative to the expected costs. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Further, no evaluation of controls can provide absolute assurance that all control issues within a company will be detected.

OTHER

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As at March 17, 2008, there were 26,445,529 common shares and 254,068 share options outstanding. Of the options outstanding, 183,334 are currently exercisable into common shares.

Other Information

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

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

RECONCILIATION SCHEDULES

Reconciliation of Net Income to EBITDA

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

(in thousands of dollars)	Dec 31/07	Sep 30/07	Jun 30/07	Mar 31/07	12 Months Dec 31/07
	\$	\$	\$	\$	\$
Net income from continuing operations	2,766	2,546	2,126	77	7,515
Amortization	822	1,072	926	752	3,572
Financing expense	184	321	223	345	1,073
Income tax provision	1,346	424	679	(11)	2,438
EBITDA	5,118	4,363	3,954	1,163	14,598

(in thousands of dollars)	Dec 31/06	Sep 30/06	Jun 30/06	Mar 31/06	12 Months * Dec 31/06
	\$	\$	\$	\$	\$
Net income from continuing operations	1,488	1,611	957	1,295	5,351
Amortization	474	413	382	386	1,655
Financing expense (income)	(3)	11	(8)	47	47
Income tax provision	639	831	429	641	2,540
EBITDA	2,598	2,866	1,760	2,369	9,593

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

ZCL Composites Inc.

Management's Discussion and Analysis
For the Year Ended December 31, 2007

Reconciliation of Unaudited 12 months ended December 31, 2006

(in thousands of dollars, except per share amounts)

	December 31 2006 9 months	March 31 2006 3 months	December 31 2006 12 months *
	\$	\$	\$
Operating Results			
Canadian revenue (<i>note 1</i>)	41,399	13,661	55,060
Manufacturing and selling costs	31,580	10,613	42,193
	9,819	3,048	12,867
General and administration	2,595	679	3,274
Amortization	1,269	386	1,655
Financing expense	-	47	47
Income before income taxes	5,955	1,936	7,891
Income taxes			
Current	2,177	687	2,864
Future	(278)	(46)	(324)
	1,899	641	2,540
Net income from continuing operations	4,056	1,295	5,351
Net income from discontinued operations	-	319	319
Net income	4,056	1,614	5,670
Basic earnings per share (<i>note 2</i>):			
From continuing operations	0.19	0.07	0.26
From discontinued operations	-	0.01	0.01
	0.19	0.08	0.27
Diluted earnings per share (<i>note 2</i>):			
From continuing operations	0.18	0.06	0.26
From discontinued operations	-	0.01	0.01
	0.18	0.07	0.27
Cash Flow			
Cash from operations (<i>note 3</i>)	5,299	2,010	7,309
Issue of common shares, net of transaction costs	1,590	1,974	3,564
Dividends paid	(2,081)	-	(2,081)
Additions to property, plant and equipment	(1,495)	(135)	(1,630)

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

Note 1: Includes revenue from the Company's foreign subsidiaries, Parabeam Industries BV (Netherlands) and VRB & Associates SRL (Barbados).

Note 2: 12 month basic and diluted earnings per share do not total to amounts per the annual and quarterly results due to the timing of the calculation.

Note 3: Cash from operations is defined as cash flows from operating activities before changes in non - cash working capital.