

# Consolidated Balance Sheets

(unaudited)

As at	March 31 2007 \$	December 31 2006 \$
<i>(in thousands of dollars)</i>		
<b>Assets</b>		
<b>Current</b>		
Cash	1,227	7,802
Accounts receivable	16,205	7,483
Inventories	21,832	10,807
Prepaid expenses	1,266	142
Future tax assets	168	11
	<b>40,698</b>	<b>26,245</b>
Property, plant and equipment <i>[note 3]</i>	16,830	10,588
Deferred costs <i>[note 3]</i>	1,059	1,050
Intangible assets <i>[note 3]</i>	11,898	687
Goodwill <i>[note 2]</i>	32,965	1,991
Future tax assets	628	–
Other assets <i>[note 4]</i>	1,288	854
	<b>105,366</b>	<b>41,415</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank indebtedness <i>[note 5]</i>	3,698	–
Accounts payable and accrued liabilities <i>[note 9]</i>	12,673	5,329
Income taxes payable	166	1,398
Deferred revenue	1,142	896
Dividends payable <i>[note 6]</i>	2,600	–
Current portion of long term debt <i>[note 7]</i>	2,000	–
Future tax liabilities	34	180
	<b>22,313</b>	<b>7,803</b>
Government grants	134	136
Future tax liabilities	7,235	1,228
Long term debt <i>[note 7]</i>	8,000	–
	<b>37,682</b>	<b>9,167</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Share capital	61,700	23,135
Contributed surplus	423	452
Accumulated other comprehensive loss	(577)	–
Retained earnings	6,138	8,661
	<b>67,684</b>	<b>32,248</b>
	<b>105,366</b>	<b>41,415</b>

See accompanying notes

# Consolidated Statements of Shareholders' Equity and Comprehensive Loss

(unaudited)

For the three months ended March 31, 2007 & 2006

(in thousands of dollars)	Common Shares	Share Capital \$	Contributed Surplus \$	Other Comprehensive Income (Loss) \$	Retained Earnings \$	Total \$	Comprehensive Income (Loss) \$
Balance, December 31, 2006	21,681,445	23,135	452	–	8,661	32,248	–
Common shares issued for cash <i>[note 8a]</i>	4,000,000	38,179	–	–	–	38,179	–
Shares issued on exercise of options <i>[note 8b]</i>	125,000	119	–	–	–	119	–
Warrants exercised for cash <i>[note 8b]</i>	192,500	183	–	–	–	183	–
Stock-based compensation <i>[note 8c]</i>	–	–	55	–	–	55	–
Reclassification of fair value of stock options and warrants previously expensed	–	84	(84)	–	–	–	–
Translation of self-sustaining operations	–	–	–	(577)	–	(577)	(577)
Dividends <i>[note 6]</i>	–	–	–	–	(2,600)	(2,600)	–
Net income	–	–	–	–	77	77	77
<b>Balance, March 31, 2007</b>	<b>25,998,945</b>	<b>61,700</b>	<b>423</b>	<b>(577)</b>	<b>6,138</b>	<b>67,684</b>	<b>(500)</b>
Balance, December 31, 2005	18,070,551	19,405	310	–	5,072	24,787	–
Stock options exercised <i>[note 8b]</i>	312,000	324	–	–	–	324	–
Warrants exercised <i>[note 8b]</i>	1,736,402	1,650	–	–	–	1,650	–
Stock-based compensation <i>[note 8c]</i>	–	–	56	–	–	56	–
Reclassification of fair value of stock options and warrants previously expensed	–	18	(18)	–	–	–	–
Net income	–	–	–	–	1,614	1,614	–
<b>Balance, March 31, 2006</b>	<b>20,118,953</b>	<b>21,397</b>	<b>348</b>	<b>–</b>	<b>6,686</b>	<b>28,431</b>	<b>–</b>

See accompanying notes

# Consolidated Statements of Income

(unaudited)

For the three months ended March 31

(in thousands of dollars)	2007 \$	2006 \$
<b>Revenue</b>	<b>14,945</b>	<b>13,661</b>
Manufacturing and selling costs <i>[notes 8c and 9]</i>	<b>12,560</b>	<b>10,645</b>
	<b>2,385</b>	<b>3,016</b>
Amortization <i>[note 3]</i>	<b>752</b>	<b>386</b>
General and administration <i>[note 8c]</i>	<b>1,222</b>	<b>647</b>
Financing charges <i>[note 10]</i>	<b>345</b>	<b>47</b>
<b>Income before income taxes</b>	<b>66</b>	<b>1,936</b>
<b>Income taxes</b>		
Current	<b>91</b>	<b>687</b>
Future	<b>(102)</b>	<b>(46)</b>
	<b>(11)</b>	<b>641</b>
<b>Net income from continuing operations</b>	<b>77</b>	<b>1,295</b>
Net income from discontinued operations <i>[note 11]</i>	<b>–</b>	<b>319</b>
<b>Net income</b>	<b>77</b>	<b>1,614</b>
<b>Basic earnings per share</b> <i>[note 12]</i>		
Net income from continuing operations	<b>\$0.00</b>	<b>\$0.07</b>
Net income from discontinued operations	<b>–</b>	<b>\$0.01</b>
<b>Net income</b>	<b>\$0.00</b>	<b>\$0.08</b>
<b>Diluted earnings per share</b> <i>[note 12]</i>		
Net income from continuing operations	<b>\$0.00</b>	<b>\$0.06</b>
Net income from discontinued operations	<b>–</b>	<b>\$0.01</b>
<b>Net income</b>	<b>\$0.00</b>	<b>\$0.07</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(unaudited)

For the three months ended March 31

	2007	2006
	\$	\$
<i>(in thousands of dollars)</i>		
<b>Cash Flows from Operating Activities</b>		
Net income	77	1,614
Add items not affecting cash:		
Amortization expense	752	386
Future tax recovery	(102)	(3)
Stock based compensation expense <i>[note 8c]</i>	55	56
	<b>782</b>	<b>2,053</b>
Changes in non-working capital:		
Increase in accounts receivable	(2,542)	(1,262)
Increase in inventories	(1,410)	(671)
(Increase) decrease in prepaid expenses	(105)	63
Increase in accounts payable and accrued liabilities	105	455
Increase in deferred revenue	246	-
(Decrease) increase in Income taxes payable	(1,646)	186
<b>Cash flows (used in) from operating activities</b>	<b>(4,570)</b>	<b>824</b>
<b>Cash Flows from Financing Activities</b>		
Issue of common shares	37,696	1,974
Net advances (repayment) of bank indebtedness <i>[note 5]</i>	3,698	(2,663)
Net cash received on long term debt	20,000	-
Repayment of long term debt	(10,000)	-
<b>Cash flows (used in) from financing activities</b>	<b>51,394</b>	<b>(689)</b>
<b>Cash Flows from Investing Activities</b>		
Business acquisition, including bank indebtedness assumed and repaid <i>[note 2]</i>	(52,648)	-
Purchase of property, plant and equipment	(663)	(135)
Other	(74)	-
<b>Cash flows (used in) from investing activities</b>	<b>(53,585)</b>	<b>(135)</b>
Foreign exchange loss on cash held in foreign currency	(14)	-
<b>Decrease in cash</b>	<b>(6,575)</b>	<b>-</b>
Cash, beginning of the period	7,802	-
<b>Cash, end of the period</b>	<b>1,227</b>	<b>-</b>

*See accompanying notes*

# Notes to Consolidated Financial Statements

March 31, 2007

## 1. Financial Statement Presentation and Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those used in the preparation of the most recent annual consolidated financial statements except as further explained below. These unaudited interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2006. In management's opinion, these interim consolidated financial statements include all adjustments necessary to present fairly such interim financial information.

The consolidated statements of income, shareholders' equity and comprehensive income and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations as well as the effects and timing of business acquisitions. Historically, the Company has been affected by seasonality and experiences its lowest levels of activity in the first and fourth quarters of the Company's fiscal year, corresponding to the seasonality of the installation of underground liquid storage systems in Canada. Newly acquired operations in the United States are similarly impacted by the seasonality of installations in the northern United States. However, as the Company has expanded its product lines into new markets that have different seasonality or, are less influenced by the effect of weather on the timing of installation, the seasonality impact has been diminished.

### a) Updated Significant Accounting Policies

Certain significant accounting policies of the Company were impacted by the business acquisition described in note 2. Such significant accounting policies have been updated for the change in circumstances and are described below.

#### **Basis of presentation**

The consolidated financial statements include the accounts of ZCL Composites Inc. and its wholly-owned subsidiary companies, Triple M Fiberglass Mfg. Ltd., Parabeam Industries BV (Netherlands), Radigan Insurance Inc., VRB & Associates SRL, XAHC, Inc., Xerxes Corporation, ZCL Acquisition Corp., ZCL Acquisition LLC and ZCL Financing Inc. All significant intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

#### **Foreign currency translation**

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

The Company's US-based subsidiaries are designated as self sustaining foreign operations. The financial statements of these subsidiaries are included in the consolidated financial statements translated using the current rate method. Under this method, all assets and liabilities are translated at the balance sheet date exchange rate, and revenue and expense items are translated at the average exchange rate for the period. The resulting exchange gains and losses are recorded as other comprehensive income.

#### **Employee Future Benefits**

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

The Company has a noncontributory defined benefit pension plan for former employees of a previously closed plant facility of one of the Company's US-based subsidiaries.

The cost of the defined benefit pension is actuarially determined using the projected benefits method. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The cumulative unamortized net actuarial gain or loss at the beginning of the year in excess of 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining life expectancy of the former employees of 24.69 years.

The Company contributes to a defined contribution 401(k) retirement plan for all US based employees meeting the plan requirements. The Company accounts for such contributions as an expense in the period in which the contributions are made. Total contribution expense recognized in the quarter was approximately \$48,000.

## *Notes to Consolidated Financial Statements continued*

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

### b) Changes In Significant Accounting Policies

#### **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 are excluded from net income calculated in accordance with GAAP. Subsequent to the adoption of this new standard, the Company recorded unrealized gains and losses on the translation of self-sustaining foreign operations acquired during the quarter in other comprehensive income.

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, accounts receivable, other assets, and accounts payable and accrued liabilities as held for trading financial instruments. During the quarter, the Company also designated bank indebtedness as financial liabilities held for trading and 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 quarter.

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. Embedded derivatives were identified in certain of the Company's insurance contracts which are recorded in other assets and categorized as held for trading.

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. The Company has not entered into any hedge arrangements during the quarter. During the quarter, the Company entered into foreign currency forward contracts, the price of which was denominated in US dollars. These 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 of March 31, 2007, there were no outstanding contracts as they were all closed out within the quarter.

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, contributed surplus, share capital and reserves. The adoption of the new standard did not have a material impact on the presentation of equity of the Company.

#### **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 financial position or on the results of its operations.

b) 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. This new standard is not expected to have a material effect on the Company's consolidated financial position or on its results of operations.

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. The Company does not expect the new standard will have a material impact on its consolidated financial position or on its results of operations. Section 3863 carries forward the presentation requirements of 3861 already adopted by the Company. As a result, the Company does not expect the new standard will have a material impact on its consolidated financial position or on its results of operations.

2. Business Acquisitions

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

The acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations from February 22, 2007. The purchase price allocation has not been finalized and therefore, the fair value of acquired assets and liabilities are preliminary and are subject to change. The final determination of the fair value of acquired assets and liabilities is expected to be completed during the second quarter.

The estimated fair value of the net assets acquired and liabilities assumed was as follows:

(in thousands of dollars, CDN)	\$
Bank indebtedness assumed	(6,343)
Non-cash working capital	9,333
Property, plant and equipment	5,946
Other long term assets	474
Non-contractual customer relationships	6,759
Customer order backlog	350
Brand	3,548
Air Permits	357
International licenses	702
Future tax liabilities	(6,014)
Goodwill	31,193
<b>Net assets acquired</b>	<b>46,305</b>

Intangible assets are being amortized using the straight line method over the following terms:	
Non-contractual customer relationships	3 to 10 years
Customer order backlog	3 months
Brand	20 years
Air permits	5 years
International licenses	9 years

The minimum lease commitments under all noncancelable operating leases for production facilities, office space and equipment are \$7,826,000. Prior to the acquisition, the Company had a license agreement with Xerxes which gave the Company exclusive rights to manufacture and sell products in certain geographic areas. Aggregate annual royalty payments under the agreement were \$300,000 of which \$43,333 was payable by the Company at the date of the acquisition.

3. Deferred Costs and Amortization

a) Deferred Costs

The unamortized balance of deferred costs at March 31, 2007 and December 31, 2006 was comprised of deferred development costs. Costs deferred in the quarter related to development projects were nil (2006 - \$158,000) and \$26,000 (2006 - \$360,000) of scientific research and development tax credits received or receivable were credited to deferred costs. Included in deferred development costs at March 31, 2006 were development projects in process of \$1,165,000 which were not amortized. Amortization of these costs commenced in the second quarter of the fiscal period ended December 31, 2006. The total amount of research and development charged to expense for the period is not separately identifiable, as such costs are only tracked for development projects that are deferred.

*Notes to Consolidated Financial Statements continued*

b) Amortization expense

Amortization expense consists of amortization of the following:

**Three months ended March 31**

(in thousands of dollars)	2007 \$	2006 \$
Property, plant and equipment	312	269
Deferred development costs	64	4
Intangible assets	378	115
Government grants	(2)	(2)
	<u>752</u>	<u>386</u>

Included in property, plant and equipment is capital work-in-process of \$990,000 (2006 – nil) which is not subject to amortization.

**4. Other Assets**

Included in other assets are pension assets related to benefit plans provided to Xerxes personnel. The Company sponsors a noncontributory defined benefit pension plan for substantially all former full-time union employees of a previously closed plant facility of Xerxes. The employment of all participants in the plan was terminated in 2001.

In November 2006, trustees of the plan approved a process that would result in full settlement of plan obligations by the end of 2007. As part of the settlement process, participants with vested benefits 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. As part of the settlement process, the plan's investments were all converted to cash and cash equivalents in the form of money market fund investments in December 2006.

The funded status of the benefit plan is summarized as follows:

(in thousands of dollars)	
Fair value of plan assets	2,182
Accrued benefit obligation	1,930
Funded status	<u>252</u>

**5. Bank indebtedness**

Bank indebtedness consists of amounts drawn under available credit facilities and cheques issued in excess of related bank balances. The Company has a revolving operating credit facility to a maximum \$15,250,000 (2006 - \$10,250,000) for working capital and other general corporate purposes. The facility expires on February 27, 2008. Depending on the form under which the credit facility is accessed, rates of interest will vary between Canadian prime plus zero or 25 basis points, US base rate plus zero or 25 basis points, or Canadian bankers acceptances with terms of 1,2,3, or 6 months, subject to availability plus 150 or 175 basis points. Interest rates are adjusted quarterly based on certain financial performance indicators of the Company. At March 31, 2007 the effective interest rate on this credit facility was prime plus 25 basis points (6.25%).

The Company has pledged as general collateral for advances under the operating credit facility and the term loan (see note 7) a general security agreement on present and future assets, guarantees from each present and future direct and indirect subsidiary of the Company supported by a first registered security over all present and future assets, and pledge of shares.

The Company is required to meet certain covenants as a condition of the debt agreements. At March 31, 2007, the Company was in compliance with all restrictive covenants.

**6. Dividends Payable**

During the fiscal period ended March 31, 2007 dividends in the amount of \$2,600,000 were declared (\$0.10 per common share for all shareholders of record on March 28, 2007) to be paid April 4, 2007. In the year ended December 31, 2006, dividends in the amount of \$2,081,000 were declared (\$0.10 per common share for all shareholders of record on June 26, 2006) and were paid on August 4, 2006.

**7. Long Term Debt**

(in thousands of dollars)	March 31, 2007 \$	December 31, 2006 \$
Term loan	10,000	-
Less current portion	2,000	-
	<u>8,000</u>	<u>-</u>

*Notes to Consolidated Financial Statements continued*

The term loan bears interest at an annualized rate of Canadian bank prime plus 25 or 50 basis points, adjusted quarterly based on certain financial performance indicators of the Company. The term loan requires quarterly repayments of \$500,000 commencing June 30, 2007, with the balance due on maturity on February 28, 2009. Additional annual principal repayment of 50% of excess cash flow, as defined by the loan agreement, are payable within 120 days of the Company's fiscal year end. The Company is also subject to mandatory prepayments of outstanding loan principal equal to 100% of any net proceeds of asset disposal and net proceeds from any insurance proceeds received by the Company.

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

## 8. Share Capital And Stock-Based Compensation

### a) Share capital

On February 13, 2007 the Company completed a "bought deal" private placement of subscription receipts with a syndicate of underwriters whereby the underwriters purchased as principals 4,000,000 subscription receipts at a price of \$10.00 per subscription receipt for total gross proceeds of \$40.0 million. After deducting expenses of the offering of \$2,606,000 (\$1,821,000 net of taxes), net cash proceeds of \$37,394,000 were received. Each holder of subscription receipts automatically acquired one common share of the Company (4,000,000 shares were issued) in exchange for every one subscription receipt held without the payment of any additional consideration upon closing of the acquisition described in note 2. The issued shares are subject to trading restrictions for a four-month period subsequent to issuance.

### b) Share options and warrants

For the three months ended March 31

	2007		2006	
	Share options #	Warrants #	Share options #	Warrants #
Balance, beginning of the period	498,002	482,750	1,152,401	3,417,579
Exercised	(125,000)	(192,500)	(312,000)	(1,736,402)
Expired	—	—	(28,334)	—
<b>Balance, beginning of the period</b>	<b>373,002</b>	<b>290,250</b>	<b>812,067</b>	<b>1,681,177</b>

The share options and warrant exercised during the three-month period ended March 31, 2007 had an exercise price of \$0.95 (2006 - \$0.95 and \$1.35) resulting in cash proceeds to the Company of \$118,750 (2006 - \$324,400) in respect of the share options and \$182,875 (2006 - \$1,649,581) in respect of the warrants.

### c) Stock-based compensation

The Company uses the fair value method of accounting for all share options granted and warrants transferred to employees on or after April 1, 2003. During the first quarter this year, no options were granted (2006 - nil), and no warrants were transferred to employees (2006 - 137,106 warrants with exercise prices below the market price on the transfer date). Stock-based compensation expense of \$55,000 (2006 - \$56,000) was recorded in the first quarter in manufacturing and selling costs and general and administration in the consolidated statements of income.

The following estimated fair values of these share options and warrants were determined, at the date of the grants or transfers, using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Share Options		Warrants	
	Granted in Excess of Market	Granted at Market	Transferred in Excess of Market	Transferred Below Market
Weighted-average fair value	\$0.85	\$0.29	\$0.18	\$1.02
Risk-free interest rate (%)	3.90	3.89	4.37	3.45
Expected hold period to exercise (years)	4.0	4.0	4.5	3.0
Volatility in the price of the Company's shares (%)	52.8	60.8	60.5	53.1
Dividend yield (%)	0.88	0.00	0.00	0.92

The Black-Scholes model, used by the Company to calculate the values of options and warrants, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely-tradeable, fully-transferable options and warrants without vesting restrictions. Such options and warrants differ significantly from the share options granted and warrants transferred by the Company. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair values of the share options granted and warrants transferred by the Company.

## Notes to Consolidated Financial Statements continued

Prior to adopting the fair value method of accounting for share options granted and warrants transferred to employees, the Company had granted or transferred share options and warrants with exercise prices in excess of the market share price on the grant or transfer date to employees. Pro forma earnings per share, had compensation expense been recognized based on the fair value as at the date of the grant or transfer of the options granted and warrants transferred to employees, is the same as the reported basic and diluted earnings per share for the period ended March 31, 2007 and March 31, 2006.

### 9. Related Party Transactions

Trucking services of \$39,000 (March 31, 2006 - \$128,000), included in manufacturing and selling costs in the consolidated statements of income, were provided by a corporation controlled by a director of the Company. Accounts payable and accrued liabilities at March 31, 2007 included \$6,000 (December 31, 2006 - \$26,000) owing to the corporation. Normal commercial rates were paid for these services.

### 10. Financing charges (income)

For the three months ended March 31

	2007	2006
(in thousands of dollars)	\$	\$
Short-term interest, net of interest income	(64)	31
Interest, long term obligations	96	–
Foreign exchange losses	313	16
	<u>345</u>	<u>47</u>

### 11. Discontinued operations

In 1999, the Company disposed of certain of its distribution and sales operations and recorded a loss on the disposal. Included in the recorded loss were estimated costs related to the disposition. In the fiscal year ended March 31, 2006, the Company recorded a recovery of estimated costs of \$361,000 net of a future tax expense of \$42,000. Management determined during the fourth quarter of the fiscal year ended March 31, 2006 that the remaining costs were unlikely to be payable.

### 12. Earnings Per Share

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

For the three months ended March 31

	2007	2006
(in thousands of dollars)	\$	\$
<b>Numerator:</b>		
Net income from continuing operations	77	1,295
Net income from continuing operations	–	319
<b>Net income</b>	<u>77</u>	<u>1,614</u>
<b>Denominator:</b>		
Weighted average shares outstanding - basic	23,380,278	19,413,392
Effect of dilutive securities		
Stock options	363,592	609,289
Warrants	441,652	1,055,272
<b>Weighted average shares outstanding - diluted</b>	<u>24,185,552</u>	<u>21,077,953</u>

### 13. Statement Of Cash Flows

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

For the three months ended March 31

	2007	2006
(in thousands of dollars)	\$	\$
Interest paid (received)	32	(47)
Income taxes paid	1,313	501

### 14. Segmented Information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

## Notes to Consolidated Financial Statements continued

The Company operates one reportable segment, liquid containment storage systems, which include the manufacture and distribution of liquid storage systems including fibreglass underground and aboveground storage tanks and related products and accessories. Previous to this quarter, the Company's home heating oil tank operations also qualified as a reportable segment. This segment no longer meets criteria for a reportable segment and has been aggregated with all non-reportable segments into the "All Other" segment. Substantially all of the Company's operations are represented by liquid containment storage systems.

### Information about products

Providing information relating to revenue from external customers for each product, or group of similar products, is impractical and accordingly, only total revenue has been presented in the statements of income.

### Information about geographic areas

	Revenues		Property, plant and equipment and goodwill	
	Mar 31, 2007	Mar 31, 2006	Mar 31, 2007	Dec 31, 2006
(in thousands of dollars)	\$	\$	\$	\$
Canada	8,528	12,872	12,063	11,930
United States	5,899	–	37,016	–
Foreign countries	518	789	716	649
	14,945	13,661	49,795	12,579

Revenue is attributed to the geographic area based on location of the Company's operations. The property, plant and equipment relating to foreign countries are located in The Netherlands and United States of America.

### Information about major customers

The Company has long-term contracts and alliance arrangements with many of the major oil and gas companies in Canada. In the first quarter ended March 31, 2007 no single customer (2006 - 3 customers) exceeded 10% of total revenue).

## 15. Comparative Figures

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