



## **ZCL Composites Reports Third Quarter 2008 Financial Results**

Edmonton, Alberta, November 5, 2008—ZCL Composites Inc. (TSX: ZCL) today announced a 23% increase in net income for the third quarter ended September 30, 2008, compared to the same quarter last year.

### **Third Quarter 2008 Highlights (Q3 08 compared with Q3 07)**

- Net income of \$3.1 million, up 23% from \$2.5 million
- Diluted earnings per share of \$0.12, up 20% from \$0.10
- Revenue of \$33.1 million, up 6% from \$31.3 million
- Backlog of \$27.8 million, up 56% from \$17.9 million

### **Nine months 2008 Highlights (Nine Months of 2008 compared to Nine Months of 2007)**

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

“ZCL’s improved financial results in the third quarter of 2008 reflect continued strong US revenue growth and lower expenses,” said Ven Côté, ZCL’s President and Chief Executive Officer. “We believe our 2008 full year financial targets are achievable due to a number of factors, including a record backlog and a strong start to the fourth quarter in October.”

The significant growth for the first nine months of 2008 also resulted from strong US revenue growth as well as a full nine month contribution from the US operations in 2008, compared with just over seven months in the prior year. ZCL entered the US market when it acquired Xerxes Corporation on February 22, 2007.

### **Targets Compared With Results**

ZCL’s 2008 annual financial targets for revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) are unchanged from those originally disclosed in March 2008.

The revenue target is for growth of more than 20% compared with 2007. Actual revenue growth was 6% for the third quarter of 2008 and 20% for the first nine months of 2008. To meet the full year revenue target will require strong fourth quarter revenue growth. In addition to the record backlog, continued strong sales orders and other factors, ZCL may benefit in the fourth quarter from the recent strength of the US dollar because a significant portion of total revenue is denominated in US dollars.

The EBITDA target is to achieve a margin of 16.0% of revenue, compared with 13.9% in 2007. For the first nine months of 2008, EBITDA represented 15.0% of revenue, compared with 12.7% in the same period last year. EBITDA represented 15.5% of revenue in the third quarter of 2008, compared to 13.9% in the same quarter last year. Management believes the 16.0% target is achievable but will depend in part on strong revenue growth in the fourth quarter. The prospects for achieving the EBITDA target may be slightly impaired by the rising value of the US dollar. While the rising US dollar is expected to result in higher revenue and overall earnings, it may result in a slightly lower EBITDA as a percentage of revenue due to higher expenses in Canada for the purchase of certain raw materials that are denominated in US dollars.

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

### **Key Factors Affecting Outlook**

As noted above, supporting the Company's outlook is the strong sales order backlog. The backlog totalled \$27.8 million as at September 30, 2008, up 56% from \$17.9 million a year earlier and up 9% from \$25.5 million at June 30, 2008. For comparability purposes, the US dollar denominated portion of the backlog for all three periods was translated into Canadian dollars at the September 30, 2008 closing rate of \$1.04. In addition, the June 30, 2008 backlog as previously disclosed was adjusted to exclude a contract that extends to 2010. The growth in backlog reflected increases from both the Canadian and US operations.

Other factors continuing to affect management's outlook for the fourth quarter of 2008 and beyond include:

- Increasing recognition of internal corrosion affecting steel tanks in the downstream petroleum market. Management believes that ZCL has benefited in 2008 from increasing recognition that steel petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties. Advances in the use of biofuels have helped to accelerate the increased recognition of the impact of internal corrosion on steel tanks since biofuels create a more corrosive environment through the phenomenon known as Microbial Induced Corrosion ("MIC"). Management also believes that ZCL has benefitted this year from historically high steel prices and the decision by the Steel Tank Institute ("STI") to reduce the warranty on new STI licensed tanks to 10 years from 30 years effective January 1, 2008. ZCL's fibreglass tank warranty against corrosion remains intact at 30 years.
- The incorporation of Parabeam® into the US double wall tank. In the third quarter of this year, the Company began to incorporate ZCL's patented three dimensional glass fibre, Parabeam®, into the double wall tanks manufactured by our US operations. The use of Parabeam® is expected to result in future operational efficiencies. With the use of Parabeam®, ZCL also introduced its insurance backed Prezerver® Enhanced Protection Program to US customers in October of this year. This program, which provides customers with third-party liability and pollution coverage, has allowed ZCL to differentiate itself in the Canadian marketplace.
- Regulations adopted by the state of Florida that require all existing single wall underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. The Company believes that there still may be as many as 10,000 tanks that need to be upgraded, replaced or shutdown by the end of 2009. A significant increase in short-term demand could result, given that annual demand for the entire US market is typically 12,000 to 15,000 tanks.

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

The speculation in the market as to why service station owners continue to delay making the required upgrades ranges from a lack of urgency, to the tighter credit standards which has impacted the ability of an owner to borrow the funds necessary to complete the upgrades. It is believed that a majority of the large chains have completed their upgrades and that most of the remaining stations to be upgraded are owned by small chain or independent operators. The Company continues to believe that there may be an increase in demand in Florida as the December 31, 2009 deadline approaches.

A notice on the Florida Department of Environmental Protection website (Storage Tank Regulation Main Page) provides a warning to tank owners which includes, among other things, the following statement: "Please Note: The Department has never issued an extension for an equipment upgrade deadline since the storage tank rules were adopted in 1984". While this notice remains posted, there is speculation in the industry that the Florida legislature may use the current economic instability, including the tighter lending standards, as a reason to extend the deadline.

- Growth opportunities in the water and wastewater market. The Company currently has a very small share of this substantial market and has been able to generate strong water and wastewater sales growth over the past few years. Through the first nine months of 2008, water and wastewater revenue was relatively consistent with the same period last year, however the orders received and related backlog have shown solid growth despite the current economic slowdown. Water and wastewater sales currently account for roughly 20% of ZCL's total revenue and there continues to be a lot of new interest in ZCL's products. To further capitalize on this opportunity, sales resources and initiatives directed to this market continue to be expanded in both Canada and the US. Over time, it is believed this fast growing part of ZCL's business may exceed its largest market, downstream petroleum storage solutions.
- A higher backlog in the Canadian operations. Canadian revenue, while down in the third quarter, was up slightly overall for the first nine months of 2008. The nine month Canadian revenue reflected increased sales to downstream petroleum, industrial and commercial customers and lower lining and upstream petroleum sales. At the end of the third quarter, the Canadian backlog was up significantly over both June 30, 2008 and September 30, 2007 due to increased sales orders and an increased quantity of tanks completed in the third quarter that are expected to be shipped in the fourth quarter. Additional opportunities for ZCL's lining system, the return of higher oil and natural gas prices, along with increased penetration of the water and wastewater market and the expansion of our industrial and commercial tank applications to Eastern Canada will help drive growth in future periods.

"With our superior, environmentally friendly fibreglass products and attractive market opportunities, we remain focused on achieving our long-term profitable growth objective of 15% to 20% per annum and a medium-term objective of improving the EBITDA margin to 20% of revenue. These objectives reflect our expectations for organic growth and with a strong balance sheet we believe we are well positioned to take advantage of strategic and accretive acquisition opportunities that may become available," said Mr. Côté.

### Summary Financial Results

#### Third quarter ended September 30

(in thousands, except per share amounts)	2008	2007	% change
Revenue	\$33,140	\$31,293	6%
Net Income	\$3,135	\$2,546	23%
Net income per share (diluted)	\$0.12	\$0.10	20%
Average number of shares (diluted)	26,588	26,427	1%

#### Nine months ended September 30

(in thousands, except per share amounts)	2008	2007	% change
Revenue	\$89,951	\$74,770	20%
Net Income	\$7,690	\$4,749	62%
Net income per share (diluted)	\$0.29	\$0.19	53%
Average number of shares (diluted)	26,592	25,064	6%

The Management's Discussion and Analysis ("MD&A") and unaudited interim consolidated financial statements for the third quarter and first nine months of 2008 are available on the ZCL website at this link: [www.zcl.com/investors/corpdisclosure.html](http://www.zcl.com/investors/corpdisclosure.html).

## **Conference Call**

ZCL Composites Inc. has scheduled an investor conference call for 9 a.m. Mountain Time (11 a.m. Eastern Time) on Thursday, November 6, 2008, to discuss its financial and operating results for the third quarter ended September 30, 2008.

To access the conference call by telephone, please dial toll free (800) 588-4490 from anywhere in North America. An audio webcast may be accessed through the investor events tab on the ZCL Composites website. Audio replays will be available on the ZCL Composites website shortly after the conclusion of the conference call.

The conference call will include prepared remarks by ZCL's President and Chief Executive Officer, Ven Côté, and by ZCL's Chief Financial Officer, Darin Coutu. After the prepared remarks, ZCL will accept questions from analysts and institutional investors. The public is invited to listen to the conference call in real time or by replay.

## **About ZCL**

ZCL Composites Inc. is North America's largest underground fibreglass tank manufacturer. ZCL's complete fuel storage systems marketed under the "Prezerver" trademark carry a \$2 million warranty against pollution.

## **Note on EBITDA and Backlog**

While EBITDA is not a financial measure under Generally Accepted Accounting Principles (GAAP), management uses it to make strategic decisions and set targets. Many financial analysts also use EBITDA to make investment decisions because it helps assess changes in ZCL's business across different time periods. Readers should not consider EBITDA as an alternative to net income, cash flow or other indicators of performance or liquidity which have been determined under GAAP. EBITDA does not have any standardized meaning prescribed by GAAP and may be different from, and therefore not comparable to, EBITDA measures used by other companies. A table has been included in the Company's MD&A for the three and nine months ended September 30, 2008 that reconciles net income from continuing operations to EBITDA.

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

## **Advisory Regarding Forward-Looking Statements**

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's projected operating results for 2008 and beyond, revenue and EBITDA targets, business opportunities in the petroleum, water/wastewater and other markets, anticipated capital expenditure trends and activity in the petroleum and other industries and markets served by the Company. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the industries the Company serves generally. These factors include, but are not limited to, fluctuations in the level of petroleum industry capital expenditures, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, and other risks and uncertainties described under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2007, and elsewhere in other documents filed with Canadian provincial securities authorities. These documents are available to the public at [www.sedar.com](http://www.sedar.com).

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

cautions readers that the significant economic instability in the world today could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve its established financial targets. Factors such as tighter lending standards, volatile capital markets, lower commodity prices (oil and natural gas in particular), the US housing crisis and recessionary pressures could result in an economic slowdown and current and future projects being delayed, postponed or cancelled, which could negatively impact the Company's ability to grow or sustain revenues and earnings.

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

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