



Third Quarter Report  
Period Ended September 30, 2007



making a **lasting** difference®

## Message To Shareholders

We are pleased to report that your company, ZCL Composites Inc. ("ZCL" or the "Company"), achieved record revenue and earnings for the third quarter ended September 30, 2007. Revenue for the quarter was \$31.3 million, an increase of 123.9% compared to \$14.0 million in the corresponding quarter last year. The increase primarily reflects the acquisition of Xerxes Corporation ("Xerxes") on February 22, 2007. The increase also reflects increased revenue from ZCL's Canadian operations. Net income for the quarter was \$2.5 million, an increase of 58.0% compared to \$1.6 million for the same period last year. The third quarter net income would have been higher but for approximately \$0.7 million of costs (manufacturing and general and administrative) primarily related to the acquisition of Xerxes (\$1.6 million for the first nine month of 2007). Diluted earnings per share were also a record \$0.10 in the third quarter compared to \$0.07 in the corresponding quarter last year.

For the first nine months of 2007, revenue was \$74.8 million, an increase of 86.1% compared to \$40.2 million for the nine month period ended September 30, 2006. Again the increase primarily reflects the acquisition of Xerxes. Net income from continuing operations for the first nine months of fiscal 2007 was \$4.7 million, an increase of 22.9% compared to \$3.9 million for the corresponding nine month period last year. Diluted earnings per share from continuing operations for the first nine months of 2007 were \$0.19, up 5.6% compared to \$0.18 in the same period last year. The diluted earnings per share this period reflects the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

We have amended our revenue target for 2007 to \$104 million to \$107 million. This compares to the previous target of \$105 million to \$115 million announced in August 2007 and actual revenue of \$55.1 million for the twelve month period ended December 31, 2006. The revised target reflects our experience to date and the impact of the Canadian dollar strengthening approximately 10% relative to the U.S. dollar since August. The Company generates over half of its revenue in U.S. dollars and therefore the strengthening of the Canadian dollar has contributed to a reduction in the revenue target of almost \$2.0 million. The decrease in the upper end of the revenue target also reflects continued slower activity levels in the Canadian oilfield services industry compared to a year ago, as well as some customers delaying purchases normally anticipated for the fourth quarter. We have also amended our EBITDA target for 2007 to \$14.0 million to \$16.0 million. This compares to the previous target of \$16.0 million to \$18.0 million and EBITDA of \$9.6 million for the twelve month period ended December 31, 2006. The revised target reflects the new revenue target, our performance through the end of the third quarter and the additional costs associated with the acquisition of Xerxes noted above.

While we are satisfied with the results achieved in the U.S. operations since the acquisition of Xerxes, we believe there is significant opportunity to further grow revenue, margins and earnings in the U.S. market. We see an opportunity to increase market share in the petroleum market and believe there are developing opportunities for ZCL's technology in the corrosion market. We also expect that the water/wastewater market will continue to experience significant growth and we are currently in the process of expanding and redirecting marketing and sales resources towards this sector.

The market for our tank lining products continues to develop in the U.S and Southeast Asia. During the third quarter of 2007, we announced a seven-year supply agreement with Tank Tech Inc. ("Tank Tech"), which replaces a five-year, Florida-only agreement announced in 2006. Under the new agreement, Tank Tech has the non-exclusive sales and marketing rights and the exclusive installation rights for the PHOENIX System® tank liner product throughout the U.S. ZCL and its affiliates have retained the right to market and sell the PHOENIX System® directly to U.S. customers.

During the third quarter, the Company was also awarded two additional sites by Chevron Hong Kong Limited (Caltex) to install its LIFELINER System™, bringing the total sites awarded to ten as at September 30, 2007. The opportunity exists for additional locations within South China and Thailand where Chevron (Caltex) has similar operations. We have also entered into discussions with customers in North America for the installation of the LIFELINER System™.

We believe there is a large, long-term global market for an alternative to tank replacement when upgrading existing single wall tanks to secondary containment standards. This alternative to tank replacement can minimize both site disturbance and lost revenue at service stations. With the PHOENIX System® and LIFELINER System™ we are in a unique position to offer our customers the option of the finest in new fibreglass tank products, as well as a proven lining system for their upgrading needs.

The acquisition of Xerxes earlier this year not only provides us with the ability to expand our market presence in the U.S., but also the potential to realize operational, technological and financial synergies. While some synergies are now being realized in terms of costs, we believe additional opportunities exist by capitalizing on operational best practices.

Looking forward to 2008, we expect further growth in revenue and EBITDA. The outlook assumes continued economic growth in North America, stable foreign exchange rates and a full year of results in 2008 for ZCL's recently acquired U.S. operations, compared with approximately ten and a half months U.S. results in 2007. In addition, with our strong balance sheet, we believe we are well positioned to take advantage of strategic and accretive acquisition opportunities that may exist.

Respectfully yours,



Venence Côté

President and Chief Executive Officer

November 1, 2007

# Management's Discussion and Analysis

November 1, 2007

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the three and nine month periods ended September 30, 2007 and the MD&A and audited consolidated financial statements and related notes for the nine month fiscal period ended December 31, 2006, which are available on SEDAR at [www.sedar.com](http://www.sedar.com), as well as the Message to Shareholders included in this Third Quarter 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 all of ZCL's operations and subsidiaries, including its foreign subsidiaries located in the Netherlands and the Barbados, without giving effect to the acquisition of Xerxes Corporation, a U.S. company, referred to below. References to "Xerxes" and "U.S. operations" shall mean operations acquired pursuant to the Xerxes acquisition; and, references to "ZCL" and the "Company" shall mean the consolidated operations of ZCL and Xerxes. The Company's new U.S. operations had a significant positive impact on the consolidated financial results for the quarter and nine month period ended September 30, 2007.

### 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 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. The table included under the heading "EBITDA" below in this MD&A reconciles net income from continuing operations to EBITDA.

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.

### 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 2007 and beyond, and anticipated capital expenditure trends and activity in the petroleum and other industries 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" and elsewhere in the Company's Annual Information Form for the nine month fiscal period ended December 31, 2006, under the heading "Risks and Uncertainties" and elsewhere in the Company's MD&A for the nine month fiscal period ended December 31, 2006 and 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 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.

## Management's Discussion and Analysis continued

### OUR BUSINESS

The Company is one of North America's leaders in the design, manufacturing, and supply of cost-effective fiberglass tank systems to the petroleum industry. Prior to February 22, 2007, the Company's business was conducted primarily in Canada. On that date, the Company expanded into the U.S. by acquiring 100% of the shares of XAHC, Inc. ("XAHC"), the sole shareholder of Xerxes Corporation, for \$46.3 million. Xerxes, now a division of the Company, is involved in the design, manufacture and marketing of fiberglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries operating from five principal locations in Minnesota, California, Texas, Maryland and Iowa. The acquisition of Xerxes, substantially increased the Company's revenues as Xerxes was of a similar size to ZCL.

The final purchase price for XAHC of \$46.3 million was funded from the net proceeds received from a "bought deal" private placement offering and commercial debt financing. The "bought deal" private placement was closed prior to the acquisition of Xerxes and consisted of the underwriters purchasing as principals 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, without the payment of any additional consideration.

The balance of the purchase consideration was funded from a two year term loan from a commercial bank which provided financing for a final settlement of \$10 million with a minimum repayment requirement of \$2.0 million per year.

### OVERALL FINANCIAL PERFORMANCE

The Company achieved record revenue and earnings for the third quarter ended September 30, 2007. Revenue for the quarter was \$31.3 million, an increase of 123.9% compared to \$14.0 million in the corresponding quarter last year. The increase primarily reflects the acquisition of Xerxes on February 22, 2007. Net income for the quarter was \$2.5 million, an increase of 58.0% compared to \$1.6 million for the same period last year. Diluted earnings per share were also a record \$0.10 in the third quarter compared to \$0.07 in the corresponding quarter last year.

While the Company is satisfied with the results achieved in the U.S. operations since the acquisition of Xerxes, there is significant opportunity to further grow revenue, margins and earnings in the U.S. market. In addition, the third quarter earnings would have been higher but for approximately \$0.7 million of costs (manufacturing and general and administration) primarily related to the acquisition of Xerxes (\$1.6 million for the first nine month of 2007).

For the first nine months of 2007, revenue was \$74.8 million, an increase of 86.1% compared to \$40.2 million for the nine month period ended September 30, 2006. The increase again primarily reflects the acquisition of Xerxes. Net income from continuing operations for the first nine months of fiscal 2007 was \$4.7 million, an increase of 22.9% compared to \$3.9 million for the corresponding nine month period last year. Diluted earnings per share from continuing operations for the first nine of 2007 were \$0.19, up slightly compared to \$0.18 in the same period last year. The diluted earnings per share this period reflects the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

### OUTLOOK

The Company's outlook continues to be consistent with that disclosed in the 2006 annual report. The following is additional information related to the outlook for the remainder of 2007 and beyond.

The consolidated order backlog as of September 30, 2007 was \$18.3 million and compares with a backlog of \$21.4 million as of June 30, 2007 and \$9.5 million as of September 30, 2006. The decline in the backlog from June 30, 2007 was due to the completion of the sale of a significant number of tanks over the past quarter.

The Company's revenue target for 2007 has been amended to \$104 million to \$107 million. This compares to the previous target of \$105 million to \$115 million announced in August 2007 and actual revenue of \$55.1 million for the twelve month period ended December 31, 2006. The revised target reflects the Company's experience to date and the impact of the Canadian dollar strengthening approximately 10% relative to the U.S. dollar since August. The Company generates over half of its revenue in U.S. dollars and therefore the strengthening of the Canadian dollar has contributed to a reduction in the revenue target of almost \$2.0 million. The decrease in the upper end of the revenue target also reflects continued slower activity levels in the Canadian oilfield services industry, as well as some customers delaying purchases normally anticipated for the fourth quarter.

The Company has also revised its EBITDA target for 2007 to \$14.0 million to \$16.0 million. This compares to the previous target of \$16.0 million to \$18.0 million and EBITDA of \$9.6 million for the twelve month period ended December 31, 2006. The revised target reflects the new revenue target, our performance through the end of the third quarter and the additional costs associated with the acquisition of Xerxes noted above. During 2007, EBITDA has increased in each quarter with further improvements expected in future periods. The Company's EBITDA totalled \$4.4 million (13.9% of revenue) for the third quarter and \$9.5 million (12.7% of revenue) for the first nine months of 2007. On a normalized basis, excluding the Xerxes related acquisition costs noted above, EBITDA was \$5.1 million (16.2% of revenue) for the third quarter and \$11.1 million (14.9% of revenue) for the first nine months of 2007.

## Management's Discussion and Analysis continued

Resin prices are expected to remain stable. Over the past three years, resin prices have not increased as significantly as prices for steel. With the relatively higher steel prices, a once-significant price advantage for steel tanks has diminished to negligible levels compared with the price of fibreglass tanks.

The Company's fibreglass tank business may also benefit from a decision taken in the second quarter of 2007 by the Steel Tank Institute, a trade group representing the majority of North America's steel tank manufacturers. The Institute, which provides its members with insurance for warranties on steel tanks for petroleum underground storage, announced that warranties on such steel tanks will be reduced to ten years from 30 years effective January 1, 2008.

It is anticipated that over the long term ZCL's fibreglass tank business may benefit from the penetration of ethanol as an auto fuel in North America. Ethanol is increasingly being blended with gasoline at a rate of up to 10% ethanol and 90% gasoline, which can be used by any gasoline-powered vehicle. In some regions of North America, a blend of 85% ethanol and 15% gasoline, known as E85, is making market inroads for vehicles specially equipped to operate on this fuel. Naturally occurring microorganisms in the ethanol, which is a bio-fuel, feed on water that is present in all underground tanks and secrete an acid which accelerates the internal corrosion of steel tanks. This problem does not affect fibreglass tanks.

In addition, ZCL expects that its fibreglass tank business may benefit from long-term growth in the Canadian oil sands sector and from long-term growth in North American demand for water and wastewater storage. Fibreglass tanks are becoming increasingly competitive against storage systems made from concrete for water and wastewater.

Environmental legislation and industry standards requiring secondary containment for storage of hazardous liquids are driving a growing need for upgrading both underground and aboveground liquid storage tanks. The Company believes there is a large, long-term global market for an alternative to tank replacement when upgrading existing single wall tanks to secondary containment standards, as evidenced by the contracts entered into with Chevron Hong Kong Limited (Caltex) and the new agreement signed with Tank Tech in the U.S. during the first nine months of 2007.

Looking forward to 2008, the Company expects further growth in revenue and EBITDA. The outlook assumes continued economic growth in North America, stable foreign exchange rates and a full year of results in 2008 for ZCL's recently acquired U.S. operations, compared with approximately ten and a half months of U.S. results in 2007.

## SELECTED FINANCIAL INFORMATION

### Financial Summary

(in thousands of dollars, except per share amounts)

	Three Months		Nine Months	
	Sep 30/07	Sep 30/06	Sep 30/07	Sep 30/06
<b>Operating Results</b>	\$	\$	\$	\$
Canadian revenue (note 1)	14,740	13,974	34,755	40,187
U.S. revenue	16,553	–	40,015	–
Revenue	31,293	13,974	74,770	40,187
EBITDA	4,363	2,866	9,480	6,995
Net income from continuing operations	2,546	1,611	4,749	3,863
Net income from discontinued operations	–	–	–	319
Net income	2,546	1,611	4,749	4,182
Basic earnings per share:				
Continuing operations	0.10	0.08	0.19	0.19
Discontinued operations	–	–	–	0.01
Total	0.10	0.08	0.19	0.20
Diluted earnings per share:				
Continuing operations	0.10	0.07	0.19	0.18
Discontinued operations	–	–	–	0.01
Total	0.10	0.07	0.19	0.19
<b>Cash Flow</b>				
Cash from operations (note 2)	3,130	2,034	6,681	5,409
Issue of common shares	263	357	38,076	3,098
Dividends paid	–	2,081	2,600	2,081
Addition to property, plant and equipment	1,855	382	3,319	904
Acquisitions	–	–	52,648	–
<b>As at</b>			Sep 30/07	Dec 31/06
<b>Financial Position</b>				
Working capital	–	–	18,557	18,442
Total assets	–	–	99,054	41,415

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

Note 2: Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital.

## Management's Discussion and Analysis continued

### EBITDA

The following table reconciles net income from continuing operations to EBITDA.

#### Reconciliation of net income to EBITDA

(in thousands of dollars)	Three Months		Nine Months	
	Sep 30/07	Sep 30/06	Sep 30/07	Sep 30/06
	\$	\$	\$	\$
Net income from continuing operations	2,546	1,611	4,749	3,863
Financing expense	321	11	889	50
Income taxes	424	831	1,092	1,901
Amortization	1,072	413	2,750	1,181
EBITDA	4,363	2,866	9,480	6,995

### RESULTS OF OPERATIONS

*Three and Nine Months Ended September 30, 2007 Compared to the Three and Nine Months Ended September 30, 2006.*

#### Revenue

Revenue for the third quarter of 2007 was \$31.3 million, up 123.9% compared to \$14.0 million in the corresponding quarter of 2006. The increase reflects \$16.6 million of revenue from the U.S. operations compared to nil a year earlier (when there were no U.S. operations) and revenue from the Canadian operations increasing \$0.8 million or 5.5% to \$14.7 million in the quarter compared to \$14.0 million in the corresponding period last year.

For the first nine months of 2007, revenue was \$74.8 million, up 86.1% compared to \$40.2 million in the corresponding period last year. The increase reflects \$40.0 million of revenue from the new U.S. operations. Revenue from the Canadian operations for the first nine months of this year was \$34.8 million, a decrease of 13.5% compared to \$40.2 million in the same period last year. The Canadian decrease reflects a weak first half of the year when many of the Company's customers delayed making purchases for a variety of reasons including the decrease in natural gas drilling, the scarcity of human resources throughout the industry and escalating costs in the oil field services industry. In the third quarter, Canadian revenues increased relative to the first two quarters this year.

### Gross Profit and Margin

For the third quarter of 2007, gross profit was \$7.0 million, an increase of 97.5% compared to \$3.5 million a year earlier, primarily due to the acquisition of Xerxes in February 2007. Gross margin for the quarter was 22.4%, compared with 25.3% in the corresponding quarter last year. While the margin decreased in comparison to the same quarter last year, the 22.4% gross margin for the third quarter was generally in line or higher than the quarterly margins achieved over the past couple of years. In addition, the Company's gross margin has steadily improved in each quarter of 2007.

For the first nine months of 2007, gross profit was \$15.1 million, an increase of 66.2% compared to \$9.1 million in the corresponding period a year earlier due to the addition of the Xerxes operations, partially offset by lower sales and gross profit generated by the Canadian operations. Gross margin for the first nine months of 2007 was 20.2%, compared to 22.6% in the corresponding period last year. The lower margin for the first nine months of 2007 was due to lower revenue from the Canadian operations, which resulted in fixed manufacturing overhead and marketing and selling costs increasing as a percentage of revenue.

Gross profit and margin were also negatively impacted by the increase in the value of finished goods acquired in conjunction with the acquisition of Xerxes. GAAP requires finished goods inventory acquired to be recorded at fair value and therefore, the \$1.1 million resulting increase in the carrying value is being charged to manufacturing costs as the inventory is sold. During the third quarter, \$0.2 million of the increase in carrying value was charged to manufacturing costs (first nine months of 2007 - \$0.9 million). Excluding the charges, the gross margin for the quarter would have been 22.9% (first nine months of 2007 - 21.5%).

#### Amortization

Amortization for the third quarter of 2007 was \$1.1 million, up 159.6% from \$0.4 million in the corresponding quarter of 2006. For the first nine months of 2007, amortization was \$2.8 million, up 132.9% from \$1.2 million in the first nine months of 2006. For both periods, the overall level of amortization increased partially due to higher capital spending activity, but primarily as a result of the acquisition of Xerxes.

## Management's Discussion and Analysis continued

### General and administration

General and administration expenses were \$2.6 million for the third quarter, up 289.9% from \$0.7 million for the corresponding quarter of 2006. For the first nine months of 2007, general and administrative expenses were \$5.6 million, up 169.0% from \$2.1 million in the first nine months of 2006. For both periods, expenses increased primarily as a result of the inclusion of Xerxes. The third quarter and nine month totals for 2007 also reflect \$0.5 million and \$0.7 million of costs, which are not expected to recur, related to the acquisition Xerxes and the implementation of associated financing transactions. In addition, general and administration expenses for the third quarter of 2007 were up over the same quarter last year due to higher public company costs and increased staffing costs.

### Financing expense

Financing expense was \$0.3 million for the third quarter and \$0.9 million for the first nine months of 2007, compared with negligible financing expense for the corresponding periods of 2006. The most significant component of financing expense for the third quarter of 2007 was interest on the long term debt used to acquire Xerxes. The nine month total includes 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. During the first quarter all forward contracts were closed out. No forward contracts were entered into during the third quarter and there were no forward contracts outstanding as at September 30, 2007.

### Income taxes

Income tax expense represented 14.3% of pre-tax income in the third quarter of 2007, compared to 34.0% in the corresponding quarter last year. For the first nine months of 2007, income tax expense represented 18.7% of pre-tax income, compared to 33.0% in the first nine months of 2006.

The Company's statutory Canadian tax rate is approximately 32% and U.S. tax rate is approximately 38%. The lower effective income tax rates used to record income tax expense in the third quarter and first nine months of 2007 reflect financing transaction implemented in conjunction with the acquisition of Xerxes.

### Net income from Continuing and Discontinued Operations and Earnings Per Share

Net income for the third quarter of 2007 was \$2.5 million, up 58.0% from \$1.6 million for the corresponding quarter of 2006, and is primarily a result of the Xerxes acquisition. Net income per share (basic) was \$0.10 for the third quarter of 2007, up 25.0% from \$0.08 in the corresponding quarter of 2006. Net income per share (diluted) was \$0.10 for the third quarter of 2007, up 42.9% from \$0.07 in the corresponding quarter of 2006.

For the first nine months of 2007, net income from continuing operations was \$4.7 million, up 22.9% from \$3.9 million in the corresponding period in 2006, primarily due to the results of the Xerxes acquisition. After including net income from discontinued operations, net income in the first nine months of 2006 totalled \$4.2 million. There was no income from discontinued operations in the first nine months of 2007. The net income from discontinued operations of \$0.3 million for the first nine months of 2006 related to the reversal of estimated disposal costs of certain discontinued operations.

Net income per share (basic) from continuing operations for the first nine months of 2007 was consistent with the same period in the prior year at \$0.19. Net income per share (diluted) from continuing operations was \$0.19 for the first nine months of 2007, up slightly from \$0.18 in the first nine months of 2006. After including discontinued operations, net income per share (diluted) in the first nine months of 2006 was \$0.19.

For the first nine months of 2007, the after tax impact of the incremental non cash adjustment for finished goods acquired from Xerxes was \$0.6 million. Without this additional charge, the basic and fully diluted earnings per share would have been \$0.21.

### Accumulated Other Comprehensive Loss and the Consolidation of the U.S. Operations

As at September 30, 2007, the Company has an accumulated other comprehensive loss ("AOCL") of \$8.1 million. The AOCL primarily relates to the decrease in the value of the U.S. dollar relative to the Canadian dollar and the translation of the Company's U.S. operations (Xerxes) into Canadian dollars. For accounting purposes, these operations are designated as self sustaining foreign operations and in accordance with Canadian GAAP all assets and liabilities are translated at the exchange rate in effect at the balance sheet date. The AOCL of \$8.1 million reflects the U.S. dollar translation rate decreasing from approximately \$1.17 at the date of acquisition of Xerxes on February 22, 2007 to approximately \$0.99 at September 30, 2007. During the third quarter, the AOCL increased \$3.0 million due to the translation rate decreasing from approximately \$1.06 at June 30, 2007.

## Management's Discussion and Analysis continued

### 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)

	Sep 30/07	Jun 30/07	Mar 31/07	Dec 31/06
Revenue	31,293	28,532	14,945	14,873
Net income	2,546	2,126	77	1,488
Basic earnings per share	\$0.10	\$0.08	\$0.00	\$0.07
Diluted earnings per share	\$0.10	\$0.08	\$0.00	\$0.07
Net income from discontinued operations	—	—	—	—

	Sep 30/06	Jun 30/06	Mar 31/06	Dec 31/05
Revenue	13,974	12,552	13,661	13,044
Net income from continuing operations	1,611	957	1,295	1,065
Basic earnings per share	\$0.08	\$0.05	\$0.07	\$0.06
Diluted earnings per share	\$0.07	\$0.04	\$0.06	\$0.05
Net income from discontinued operations	—	—	319	—

The Company's quarterly results of operations 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's Canadian operations have been affected by seasonality and experienced its lowest levels of activity in the first two quarters of the calendar year, corresponding to the seasonality of the delivery of product to the upstream market and installation of product in the downstream market. The U.S. operations acquired on February 22, 2007 are similarly impacted by the seasonality of installations in the northern United States.

### LIQUIDITY AND CAPITAL RESOURCES

Working capital (current assets less current liabilities) at September 30, 2007 was \$18.6 million compared with \$18.4 million at December 31, 2006. Current assets increased by \$13.1 million while current liabilities increased by \$12.9 million largely due to the additional assets and liabilities from the Xerxes acquisition. The negligible change also reflects a \$2.6 million dividend paid April 4, 2007 and \$2.0 million representing the current portion of long term debt that was used to fund the acquisition of Xerxes.

Future financing requirements for Xerxes will be funded through the consolidated financing arrangements of the Company. The Company does not currently expect Xerxes' future working capital needs to require any increase in the Company's consolidated financing arrangements.

#### Cash Flows

	Three Months Ended	
	Sep 30/07	Sep 30/06
(in thousands of dollars)		
Operating activities	2,449	880
Financing activities	(121)	(1,724)
Investing activities	(4,121)	(382)
Foreign exchange gain on cash held in foreign currency	155	—
Decrease in cash	(1,638)	(1,226)
Cash, beginning of the period	3,924	2,414
Cash, end of the period	2,286	1,188

	Nine Months Ended	
	Sep 30/07	Sep 30/06
(in thousands of dollars)		
Operating activities	2,318	3,852
Financing activities	50,555	(1,760)
Investing activities	(58,307)	(904)
Foreign exchange loss on cash held in foreign currency	(82)	—
Increase (decrease) in cash	(5,516)	1,188
Cash, beginning of the period	7,802	—
Cash, end of the period	2,286	1,188

## Management's Discussion and Analysis continued

Cash generated from operating activities before changes in working capital for the quarter ended September 30, 2007 was \$3.1 million (\$6.7 million in the first nine months of 2007) compared with \$2.0 million for the same quarter last year (\$5.4 million in the first nine months of 2006). The increase of \$1.1 million was primarily due to higher net income earned during this quarter due to the acquisition of Xerxes. The increase of \$1.3 million year to date is primarily due to Xerxes results replacing the decreased results of the Canadian operations in the first nine months of 2007 compared with the corresponding period in 2006.

Cash used in financing activities for the quarter ended September 30, 2007 was \$0.1 million as a result of a long term debt payment of \$0.5 million offset by an increase in bank indebtedness of \$0.1 million and proceeds on stock options and warrants of \$0.3 million. In the first nine months of 2007, cash generated from financing activities was \$50.6 million as a result of the equity financing of \$37.4 million undertaken in connection with the acquisition of Xerxes, \$0.7 million raised on the exercise of stock options and warrants, \$10.0 million of net debt financing raised to fund the acquisition of Xerxes less a long term debt payment of \$1.0 million, and a \$6.1 million increase in bank indebtedness, less dividends paid of \$2.6 million. The Company has total operating lines of credit of up to \$15.25 million, provided by a chartered bank, available to it subject to meeting contractually prescribed margin requirements. As at September 30, 2007, the Company had \$9.2 million available on the operating lines of credit and was in compliance with all required bank covenants.

The acquisition of Xerxes and the related costs associated with the purchase amounted to \$46.3 million. Including the Xerxes bank indebtedness repaid on the date of acquisition, the total cash used for the acquisition amounted to \$52.6 million. Property, plant and equipment additions in this quarter were \$1.9 million (\$3.3 million in the first nine months of 2007) compared with \$0.4 million for the same quarter last year (\$0.9 million in the first nine months of 2006). These additions related largely to the purchase of equipment and land to increase production capacity and efficiency.

### Contractual Obligations

The Company's contractual obligations remain as described in Note 8 to the audited December 31, 2006 consolidated financial statements, except as noted below. To establish the captive insurance company, Radigan Insurance Company, the Company has supplied a U.S. \$500,000 Letter of Credit in favor of the Commissioner of Insurance for the State of Montana. As at September 30, 2007, Xerxes' minimum lease commitments under all non-cancellable operating leases for production facilities, office space and equipment were \$6.7 million.

The Company purchased certain operating assets and land totalling \$2.2 million subsequent to the third quarter of 2007.

## SEGMENTED OPERATIONS

Operating segments are defined as components of the Company for which separate financial information is available and 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.

If an operating segment represents more than 10% of the overall sales, assets or income before administrative costs, amortization, financing charges and income taxes, it must be shown as a separate segment. Prior to 2007, the Home Heating Oil Tank segment incurred losses that exceeded 10% of the overall income of the Company; therefore, this segment was a reportable segment and was disclosed separately. This segment no longer exceeds 10% of sales, assets or net income before administrative costs, amortization, financing charges and income taxes. The Company does not expect this segment to exceed any of these thresholds in the future. Therefore, this operating segment is no longer disclosed separately. Since substantially all of the Company's operations (including Xerxes) are represented by the one reportable operating segment, i.e. the Liquid Containment Storage Systems segment, the Company has discontinued the reporting of separate segmented information.

On a geographic basis, the Company in 2007 began disclosing U.S. revenue separately following the Xerxes acquisition. The Company continues to report one other geographic area, being Canada and Foreign countries (defined as countries other than the U.S.).

## TRANSACTIONS WITH RELATED PARTIES

Trucking services of \$119,000 (2006 - \$133,000) for the three month period and \$285,000 (2006 - \$394,000) for the nine month period ended September 30, 2007, 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 September 30, 2007 included \$42,000 (December 31, 2006 - \$26,000) owing to the corporation. Normal commercial rates were paid for these services. As of September 18, 2007, this director resigned his position on the board and therefore is no longer a related party.

## CRITICAL ACCOUNTING ESTIMATES

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 definite life intangible assets. Management used an external valuator to assist in developing the key assumptions and resulting fair value estimates.

## Management's Discussion and Analysis continued

### CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company adopted certain new accounting policies beginning January 1, 2007 as required by GAAP. Furthermore, with a significant business acquisition completed during the first quarter, certain existing accounting policies were updated to address circumstances resulting from or created by the acquisition. A summary of the newly adopted accounting policies in the period is included herein.

#### 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 losses on the translation of self-sustaining foreign operations during the quarter of \$3.0 million (\$8.1 million for the nine months ended September 30, 2007) 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. 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 third quarter. During the first quarter, 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, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. As of September 30, 2007, there were no outstanding contracts as they were all closed out within the first 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 (loss), 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 consolidated financial position or on the results of its operations.

## Management's Discussion and Analysis continued

### New Policies Related to the Acquisition of Xerxes

The Company's significant U.S.-based subsidiaries, Xerxes and XAHC 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 (loss).

As a result of the acquisition of Xerxes, the Company now has a non contributory defined benefit pension plan, a defined contribution retirement benefit plan and a non-retirement employee benefit plan.

The non contributory defined benefit pension plan is for former employees of a previously closed plant facility of one of the Company's U.S.-based subsidiaries. The cost of this plan 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 U.S. 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 \$124,000 and \$270,000 for the nine months ended September 30, 2007.

The Company has self-insured the liability associated with providing health and welfare insurance benefits to its U.S.-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.

### 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.

In June 2007, the CICA issued Section 3031, Inventories, which requires inventory 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 inventory. The standard also requires the consistent use of either the FIFO or weighted average cost formula to measure inventory 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 inventory 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 January 1, 2008. The Company is currently evaluating the impact of adopting this standard.

## Management's Discussion and Analysis continued

### CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company have designed the Company's disclosure controls and procedures ("DCP") or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within the Company.

#### Internal Controls over Financial Reporting

The CEO and the CFO have designed the Company's internal control over financial reporting ("ICFR") or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

#### Acquisition of Xerxes

In respect of the acquired Xerxes operations, the Company's evaluation of the design of its DCP and ICFR included a review of Xerxes' records and accounts as at the date of acquisition by an outside firm of chartered accountants, discussion of Xerxes' results with senior management of Xerxes and obtaining letters of representation from key Xerxes personnel attesting that all material information relating to Xerxes was made known to the Company.

#### Changes in Internal Control over Financial Reporting

During the quarter, ZCL's ICFR were enhanced as a result of an increased skill set in financial reporting. Refer to the MD&A for the period ended December 31, 2006 for additional detail on the Company's assessment of ICFR. There were no other changes in the Company's ICFR within the third quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company ICFR.

### OTHER

#### Outstanding Share Data

As at November 1, 2007, there were 26,435,529 common shares, 226,668 share options ("Options") and nil warrants ("Warrants") outstanding. 160,001 of the Options are currently exercisable into common shares.

# Consolidated Balance Sheets

(unaudited)

As at	September 30 2007 \$	December 31 2006 \$
(in thousands of dollars)		
<b>Assets</b>		
<b>Current</b>		
Cash	2,286	7,802
Accounts receivable	17,091	7,483
Inventories	17,891	10,807
Prepaid expenses	668	142
Income taxes recoverable	454	–
Future tax assets	906	11
	<b>39,296</b>	<b>26,245</b>
Property, plant and equipment <i>[note 3]</i>	17,897	10,588
Deferred costs <i>[note 3]</i>	867	1,050
Intangible assets <i>[note 3]</i>	9,338	687
Goodwill <i>[note 2]</i>	27,766	1,991
Other assets <i>[note 4 &amp; 16]</i>	3,223	854
Future tax assets	667	–
	<b>99,054</b>	<b>41,415</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank indebtedness <i>[note 5]</i>	6,079	–
Accounts payable and accrued liabilities <i>[note 9]</i>	11,783	5,329
Income taxes payable	–	1,398
Deferred revenue	221	896
Current portion of long term debt <i>[note 7]</i>	1,960	–
Future tax liabilities	696	180
	<b>20,739</b>	<b>7,803</b>
Government grants <i>[note 3]</i>	127	136
Future tax liabilities	5,928	1,228
Long term debt <i>[note 7]</i>	6,978	–
	<b>33,772</b>	<b>9,167</b>
Commitments and contingencies <i>[note 2]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 8a]</i>	62,169	23,135
Contributed surplus	443	452
Accumulated other comprehensive income (loss)	(8,140)	–
Retained earnings	10,810	8,661
	<b>65,282</b>	<b>32,248</b>
	<b>99,054</b>	<b>41,415</b>

See accompanying notes

# Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

(unaudited)

As at September 30

(in thousands of dollars, except for number of common share)	Common Shares	Share Capital \$	Contributed Surplus \$	Accumulated 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	38,147	–	–	–	38,147	–
Shares issued on exercise of options <i>[note 8b]</i>	271,334	267	–	–	–	267	–
Warrants exercised for cash <i>[note 8b]</i>	482,750	459	–	–	–	459	–
Stock-based compensation <i>[note 8c]</i>	–	–	152	–	–	152	–
Reclassification of fair value of stock options and warrants previously expensed	–	161	(161)	–	–	–	–
Translation of self-sustaining foreign operations	–	–	–	(8,140)	–	(8,140)	(8,140)
Dividends <i>[note 6]</i>	–	–	–	–	(2,600)	(2,600)	–
Net income	–	–	–	–	4,749	4,749	4,749
<b>Balance, September 30, 2007</b>	<b>26,435,529</b>	<b>62,169</b>	<b>443</b>	<b>(8,140)</b>	<b>10,810</b>	<b>65,282</b>	<b>(3,391)</b>
Balance, December 31, 2005	18,070,551	19,405	310	–	5,072	24,787	–
Shares issued on exercise of options <i>[note 8b]</i>	567,732	608	–	–	–	608	–
Warrants exercised for cash <i>[note 8b]</i>	2,619,829	2,489	–	–	–	2,489	–
Stock-based compensation <i>[note 8c]</i>	–	–	250	–	–	250	–
Reclassification of fair value of stock options and warrants previously expensed	–	104	(104)	–	–	–	–
Dividends <i>[note 6]</i>	–	–	–	–	(2,081)	(2,081)	–
Net income	–	–	–	–	4,182	4,182	4,182
<b>Balance, September 30, 2006</b>	<b>21,258,112</b>	<b>22,606</b>	<b>456</b>	<b>–</b>	<b>7,173</b>	<b>30,235</b>	<b>4,182</b>

See accompanying notes

# Consolidated Statements of Income

(unaudited)

Periods ended September 30

	Three months		Nine months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Revenue	31,293	13,974	74,770	40,187
Manufacturing and selling costs <i>[notes 8c and 9]</i>	24,298	10,433	59,671	31,103
	6,995	3,541	15,099	9,084
Amortization <i>[note 3]</i>	1,072	413	2,750	1,181
General and administration <i>[note 8c]</i>	2,632	675	5,619	2,089
Financing expense <i>[note 10]</i>	321	11	889	50
<b>Income before income taxes</b>	<b>2,970</b>	<b>2,442</b>	<b>5,841</b>	<b>5,764</b>
<b>Income taxes</b> <i>[note 11]</i>				
Current	955	877	2,062	2,104
Future	(531)	(46)	(970)	(203)
	424	831	1,092	1,901
<b>Net income from continuing operations</b>	<b>2,546</b>	<b>1,611</b>	<b>4,749</b>	<b>3,863</b>
Net income from discontinued operations <i>[note 12]</i>	–	–	–	319
<b>Net income</b>	<b>2,546</b>	<b>1,611</b>	<b>4,749</b>	<b>4,182</b>
<b>Basic earnings per share</b> <i>[note 13]</i>				
Net income from continuing operations	\$0.10	\$0.08	\$0.19	\$0.19
Net income from discontinued operations	–	–	–	\$0.01
Net income	\$0.10	\$0.08	\$0.19	\$0.20
<b>Diluted earnings per share</b> <i>[note 13]</i>				
Net income from continuing operations	\$0.10	\$0.07	\$0.19	\$0.18
Net income from discontinued operations	–	–	–	\$0.01
<b>Net income</b>	<b>\$0.10</b>	<b>\$0.07</b>	<b>\$0.19</b>	<b>\$0.19</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(unaudited)

Periods ended September 30

	Three months		Nine months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>				
Net income	2,546	1,611	4,749	4,182
Add items not affecting cash:				
Amortization expense	1,072	413	2,750	1,181
Future tax recovery	(531)	(46)	(970)	(203)
Stock-based compensation expense [note 8c]	43	56	152	249
	3,130	2,034	6,681	5,409
Changes in non-cash working capital:				
Increase in accounts receivable	(4,402)	(1,686)	(4,386)	(702)
Decrease (increase) in inventories	3,947	(647)	1,904	(2,815)
Decrease (increase) in prepaid expenses	(11)	113	(93)	45
(Decrease) increase in accounts payable and accrued liabilities	898	497	(149)	927
Decrease in deferred revenue	(742)	–	(675)	–
(Decrease) increase in income taxes payable	(371)	569	(964)	988
<b>Cash flows from operating activities</b>	<b>2,449</b>	<b>880</b>	<b>2,318</b>	<b>3,852</b>
<b>Cash Flows from Financing Activities</b>				
Issue of common shares, net of transaction costs	263	357	38,076	3,098
Net advances (repayment) of bank indebtedness [note 5]	116	–	6,079	(2,777)
Dividends paid [note 6]	–	(2,081)	(2,600)	(2,081)
Net cash received on long term debt	–	–	20,000	–
Repayment of long term debt	(500)	–	(11,000)	–
<b>Cash flows (used in) from financing activities</b>	<b>(121)</b>	<b>(1,724)</b>	<b>50,555</b>	<b>(1,760)</b>
<b>Cash Flows from Investing Activities</b>				
Business acquisition, including bank indebtedness assumed and repaid [note 2]	–	–	(52,648)	–
Purchase of property, plant and equipment	(1,855)	(382)	(3,319)	(904)
Other assets	(2,266)	–	(2,340)	–
<b>Cash flows used in investing activities</b>	<b>(4,121)</b>	<b>(382)</b>	<b>(58,307)</b>	<b>(904)</b>
Foreign exchange gain (loss) on cash held in foreign currency	155	–	(82)	–
<b>Increase (decrease) in cash</b>	<b>(1,638)</b>	<b>(1,226)</b>	<b>(5,516)</b>	<b>1,188</b>
Cash, beginning of the period	3,924	2,414	7,802	–
<b>Cash, end of the period</b>	<b>2,286</b>	<b>1,188</b>	<b>2,286</b>	<b>1,188</b>

See accompanying notes

# Notes to Consolidated Financial Statements

September 30, 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 nine month 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 (loss) 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 two 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 installations, 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, ZCL Acquisition (#2) LLC, ZCL Financing (#2) ULC and ZCL Financing Inc. All significant intercompany transactions and balances have been eliminated in the preparation of these unaudited interim 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 significant subsidiaries, Xerxes and XAHC and VRB & Associates SRL are 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 (loss).

#### **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 non contributory defined benefit pension plan for former employees of a previously closed plant facility of one of the Company's U.S.-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 U.S. 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 \$124,000 and \$270,000 for the nine months ended September 30, 2007.

## *Notes to Consolidated Financial Statements continued*

The Company has self-insured the liability associated with providing health and welfare insurance benefits to its U.S.-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 (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, accounts receivable, other assets, and accounts payable and accrued liabilities as held for trading financial instruments. 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 first quarter, the Company entered into foreign currency forward contracts, the price of which was denominated in U.S. dollars. 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 of September 30, 2007, there were no outstanding contracts as they were all closed out within the first quarter.

Section 3251 requires separate presentation of changes in equity for the period from net income, other comprehensive income (loss), 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. 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.

## Notes to Consolidated Financial Statements continued

### 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.

In June 2007, the CICA issued Section 3031, Inventories, which requires inventory 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 inventory. The standard also requires the consistent use of either the FIFO or weighted average cost formula to measure inventory 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 inventory 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 January 1, 2008. The Company is currently evaluating the impact of adopting this standard.

### 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.

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 following table summarizes the fair value of the assets and liabilities acquired and the straight line amortization terms of intangible assets.

(in thousands of dollars, CDN)	Amortization Term	Fair Value
Bank indebtedness, net		(6,343)
Non-cash working capital		10,397
Property, plant and equipment		5,946
Other long term assets		474
Non-contractual customer relationships	3 to 10 years	6,934
Customer order backlog	3 months	306
Brand	10 years	3,418
Air permits	5 years	357
International licenses	9 years	780
Future tax liabilities		(6,283)
Goodwill		30,319
<b>Net assets acquired</b>		<b>46,305</b>

The minimum lease commitments under all non-cancelable operating leases for production facilities, office space and equipment are approximately \$6.7 million as at September 30, 2007. 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 September 30, 2007 and December 31, 2006 was comprised of deferred development costs. Costs deferred related to development projects were nil for the three month period (2006 - nil) and for the nine month period ended September 30, 2007 (2006 - \$158,000). Scientific research and development tax credits received or receivable were credited to deferred costs of nil in the three month period (2006 - nil) and \$26,000 for the nine month period ended September 30, 2007 (2006 - \$360,000). 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.

b) Amortization expense

Amortization expense consists of amortization of the following:

For the periods ended September 30	Three Months		Nine Months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Property, plant and equipment	478	262	1,144	782
Deferred development costs	56	31	183	40
Intangible assets	542	123	1,432	366
Government grants	(4)	(3)	(9)	(7)
	<u>1,072</u>	<u>413</u>	<u>2,750</u>	<u>1,181</u>

4. Other Assets

Included in other assets are pension assets related to benefit plans provided to Xerxes personnel. The Company sponsors a non contributory 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, U.S. 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 September 30, 2007 the effective interest rate on this credit facility was prime plus 25 basis points (6.50%).

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 September 30, 2007, the Company was in compliance with all restrictive covenants.

6. Dividends Paid

During the period ended September 30, 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) which were paid April 4, 2007. In the period 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

	September 30,	December 31,
	2007	2006
(in thousands of dollars)	\$	\$
Term loan	8,938	-
Less current portion	1,960	-
	<u>6,978</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, 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. Deferred finance costs related to the term loan are expensed over the term of the loan.

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 \$2,695,000 (\$1,878,000 net of taxes), net cash proceeds of \$37,350,000 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 were subject to trading restrictions for a four-month period subsequent to issuance.

#### b) Share options and warrants

##### For the periods as follows

	2007		2006	
	Share options #	Warrants #	Share options #	Warrants #
Balance, as at January 1	498,002	482,750	1,152,401	3,417,579
Exercised	(221,334)	(209,600)	(337,333)	(2,512,995)
Expired	–	–	(28,334)	–
Granted	–	–	50,000	–
Balance, as at June 30	276,668	273,150	836,734	904,584
Exercised	(50,000)	(273,150)	(230,399)	(106,834)
Balance, as at September 30	226,668	–	606,335	797,750

The share options and warrants exercised during the nine month period ended September 30, 2007 had an exercise price of \$0.95 and \$1.40 (2006 - \$0.95, \$1.35 and \$1.40) resulting in cash proceeds to the Company of \$47,500 for the three month period (2006 - \$255,779) and \$267,368 for the nine months ended September 30, 2007 (2006 - \$607,995) in respect of the share options, and \$259,493 for the three month period (2006 - \$101,492) and \$458,613 for the nine months ended September 30, 2007 (2006 - \$2,488,836) 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. For the first nine months and quarter ended September 30, 2007, no options were granted (2006 - 50,000 options granted at market price), and no warrants were transferred to employees (2006 - 137,106 warrants with an exercise price below the market price on the transfer date). Stock-based compensation expense of \$43,000 (2006 - \$56,000) in the third quarter and \$152,000 (2006 - \$249,000) in the nine month period was recorded 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 September 30, 2006. All related options and warrants have been exercised or have expired as of September 30, 2007.

### 9. Related Party Transactions

Trucking services of \$119,000 (2006 - \$133,000) for the three month period and \$285,000 (2006 - \$394,000) for the nine month period ended September 30, 2007, 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 September 30, 2007 included \$42,000 (December 31, 2006 - \$26,000) owing to the corporation. Normal commercial rates were paid for these services. As of September 18, 2007, this director resigned his position on the board and therefore is no longer a related party.

### 10. Financing Expense

#### For the periods ended September 30

	Three Months		Nine Months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Short-term interest, net of interest income	139	14	25	56
Interest, long term obligations	160	—	412	—
Foreign exchange losses (gains)	22	(3)	452	(6)
	321	11	889	50

### 11. Income Taxes

#### For the periods ended September 30

	Three Months		Nine Months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Statutory federal and provincial taxes	964	792	1,895	1,963
<b>Increase (decrease) in income taxes resulting from:</b>				
Impact of changes in estimates	—	—	—	(93)
Rate differences for foreign jurisdictions	(46)	—	55	—
Tax exempt income and other items	(494)	39	(858)	31
	424	831	1,092	1,901

### 12. 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 quarter 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 quarter ended March 31, 2006 that the remaining costs were unlikely to be payable.

### 13. 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 September 30

	2007	2006
(in thousands of dollars)	\$	\$
<b>Numerator:</b>		
Net income	2,546	1,611
<b>Denominator:</b>		
<b>Weighted average shares outstanding - basic</b>	<b>26,250,083</b>	21,078,499
Effect of dilutive securities,		
Stock options	176,974	524,137
Warrants	—	807,706
<b>Weighted average shares outstanding - diluted</b>	<b>26,427,057</b>	22,410,342

#### For the nine months ended September 30

	2007	2006
(in thousands of dollars)	\$	\$
<b>Numerator:</b>		
Net income from continuing operations	4,749	3,863
Net income from discontinued operations	—	319
Net income	4,749	4,182
<b>Denominator:</b>		
<b>Weighted average shares outstanding - basic</b>	<b>24,799,504</b>	20,356,587
Effect of dilutive securities		
Stock options	264,282	544,992
Warrants	—	863,415
<b>Weighted average shares outstanding - diluted</b>	<b>25,063,786</b>	21,764,994

*Notes to Consolidated Financial Statements continued*

14. Statement Of Cash Flows

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

For the periods ended September 30	Three Months		Nine Months	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Interest paid (received)	199	14	437	(22)
Income taxes paid	1,316	308	2,738	1,116

15. 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, the Chief Executive Office, in allocating resources and assessing performance.

The Company operates one reportable segment, liquid containment storage systems, which include the manufacture and distribution of liquid storage systems including fiberglass underground and aboveground storage tanks and related products and accessories. Previous to this fiscal year, 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 liquid containment storage systems segment.

**Information about geographic areas**  
Revenues for the periods ended September 30

(in thousands of dollars)	Three Months		Nine Months	
	2007	2006	2007	2006
	\$	\$	\$	\$
Canada and Foreign	14,740	13,974	34,755	40,187
United States	16,553	–	40,015	–
	31,293	13,974	74,770	40,187

Property, plant, equipment and goodwill as at:	September 30,	December 31,
	2007	2006
(in thousands of dollars)	\$	\$
Canada	14,497	12,579
United States	31,166	–
	45,663	12,579

Revenue is attributed to the geographic area based on location of the Company's operations. Revenue and property, plant and equipment related to operations outside of Canada and the U.S. is insignificant and therefore has been included in the Canadian results.

**Information about major customers**

The Company has long-term contracts and alliance arrangements with many of the major oil and gas companies in Canada. For the nine months ended September 30, 2007 and September 30, 2006, no single customer exceeded 10% of total revenue.

**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 consolidated statements of income.

16. Subsequent event

During the third quarter, the Company purchased land from Cara Concrete Products Ltd. ("CARA") for \$0.8 million. On October 5, 2007, the Company purchased certain additional operating assets of CARA for cash consideration of \$2.2 million. A deposit for the purchase is recorded as an other asset as at September 30, 2007.

17. Comparative Figures

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

# Corporate Information

## Board of Directors

James S. Edwards, Chairman of the Board  
Venence G. Côté, Director, President and CEO  
Fred J. Dymont, Director  
Roderick Graham, Director  
Allan Olson, Director  
Harold Roozen, Director

## Corporate Office

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## Common Shares Outstanding

as of November 1, 2007  
Total Outstanding: 26,435,529

## Investor Relations

**Copies of this Quarterly Report  
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