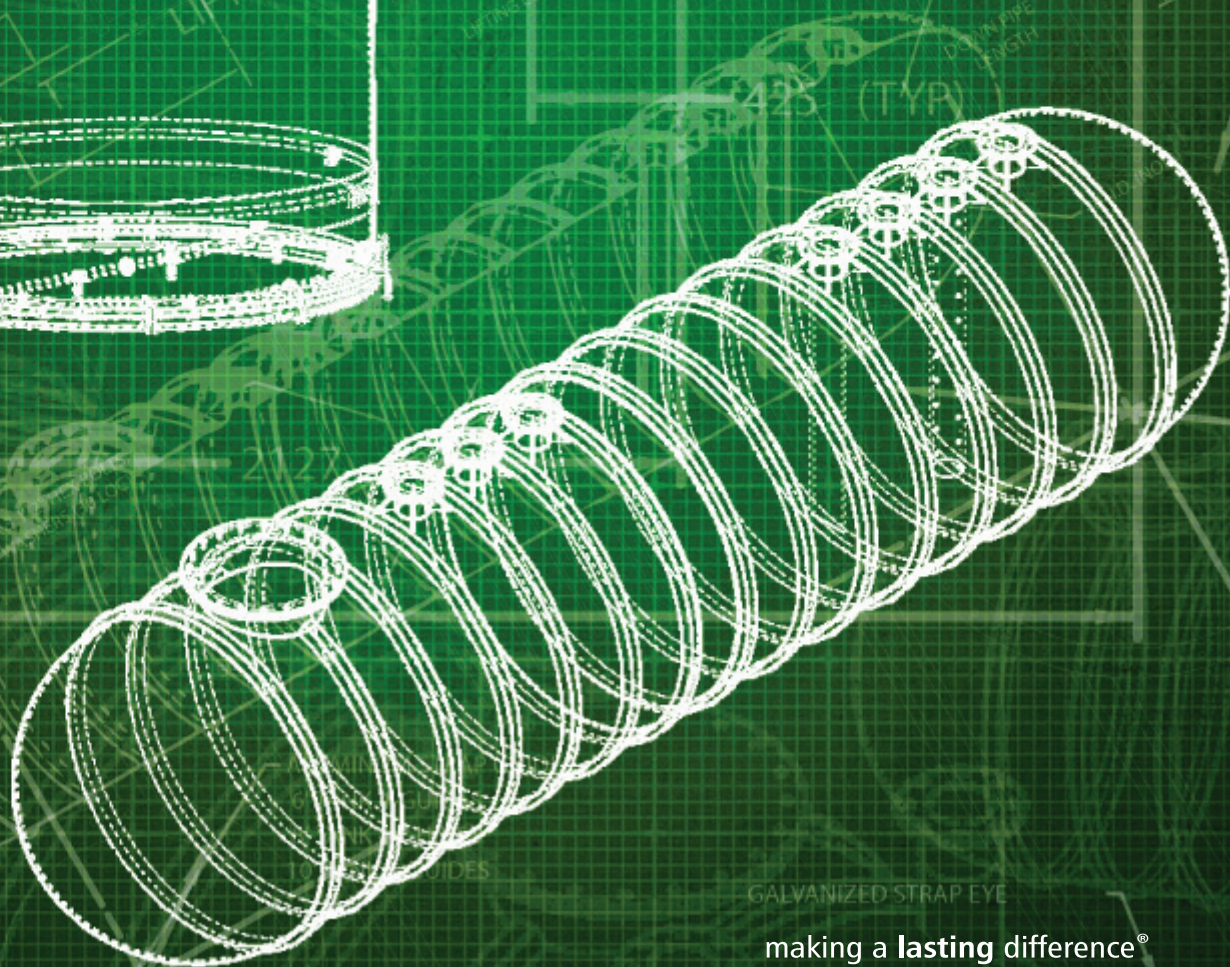
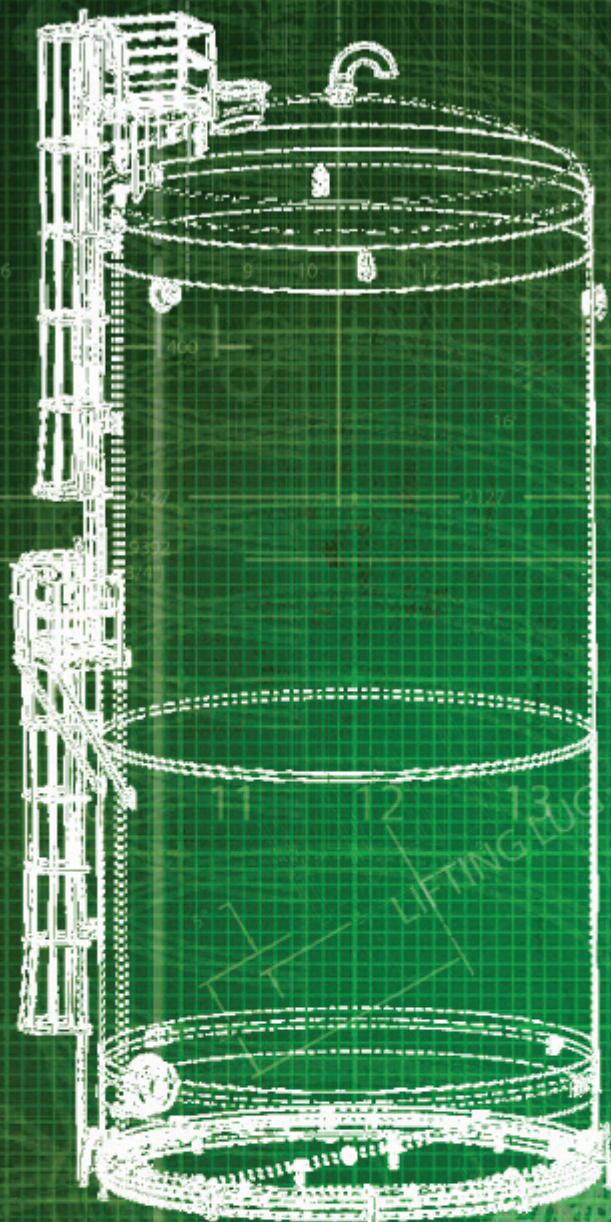


ZCL[®]

COMPOSITES INC.

Second Quarter

2015



making a lasting difference[®]

Q2 2015 Message to Shareholders

Overall financial results in the second quarter of 2015 were mixed compared with a year earlier. Our total revenue and backlog increased because of strong performance by the Underground operating segment. However, revenue in our Aboveground operating segment, primarily in the Canadian Oil Sands, declined sharply, leading to an overall decline in gross profit and net income.

Based on performance in the first half of 2015 and our robust backlog of \$53.3 million, driven by the Underground operating segment, we expect to grow our overall revenue for the full year 2015. Although we expect to see overall gross margin improvement compared to the first half of 2015, we expect that weakness in the Aboveground operating segment, due primarily to the uncertainty in the energy sector, will impact our profitability in the upcoming quarters.

Our revenue growth continues to be driven by our Underground segment, and in particular, from our Petroleum Products group in the US market. New construction by several segments of our US gasoline retail customer base, ZCL's continued market share gains against our steel tank competitors, and growing awareness of the need to upgrade underground storage tank systems due to the aging of the installed tank base, have all contributed to support revenue growth in this market. Additionally, recovering construction activity in the residential, commercial, industrial, and institutional markets, is expected to result in revenue growth from our Water Products group.

The changing regulatory environment in the US continues to support our view of longer term moderate growth for our Petroleum Products group. The US Environmental Protection Agency's (EPA) recent release of its long awaited update to underground storage tank regulations, the first substantial federal regulatory change since 1988, will be the catalyst for state level UST regulatory changes over the next three years and we expect to benefit from revisions to regulations in many US states. Already, California has recently enacted regulations requiring the replacement of all currently installed single wall tanks with double wall tanks. Several states have similar regulations in place and more are contemplating putting similar regulations in place. Also, several states already have in place, or are evaluating putting in place, regulations that require the replacement of USTs at the end of the manufacturers' original warranty period. While none of these regulations when viewed individually will dramatically impact our business, when taken as a whole, these enacted and anticipated regulatory changes are favourable for ZCL and support our expectation of longer term moderate growth for our Petroleum Products group.

Also in our Underground segment, our Water Products group is benefiting from new construction and regulatory changes. In the short term, we anticipate growth as construction recovers in US residential, commercial, industrial, and institutional markets. Over the longer term, we expect ZCL to benefit from regulatory changes resulting from growing concerns about drought conditions, especially in California, and from changes to local building and zoning codes that require large capacity onsite water storage systems for fire suppression systems. Many

states and municipalities are also implementing regulations requiring the detention and cleaning of storm water runoff before it reaches municipal sewer systems due to concerns about contaminated storm water runoff negatively impacting rivers, lakes, and streams.

In our Corrosion Products group, in response to the changes in the industries served by ZCL, we have restructured our sales and field services teams and have adopted new selling strategies in order to strengthen and further diversify our Aboveground customer base. We expect these changes to enhance our long-term growth potential as early efforts have already identified numerous opportunities. However, given the long cycle times from quoting to order fulfillment with our large Aboveground orders, we do not expect these changes to generate a significant increase in Aboveground revenue until 2016 or 2017.

We continue to believe that ZCL's on-going diversification into non-Petroleum markets such as Water Products and Corrosion Products has long term value, but while our forecasts for Water Products is improving, the current environment for Corrosion Products remains challenging.

As announced in our second quarter disclosure, our Chief Operating Officer, Kapul Gill, has resigned from ZCL to pursue other career opportunities. We have commenced a search process for his replacement and have completed a transition plan. His final day will be July 31, 2015. Since starting with ZCL in October 2012, Kapul has led many positive changes within our operations group, making a valuable contribution to creating a sustainable culture of operational continuous improvement at ZCL.

I want to thank the many ZCL stakeholders for their continued support and I look forward to sharing our third quarter results with you in early November.

Ron Bachmeier
President & CEO

Management's Discussion and Analysis

INTRODUCTION

ZCL Composites Inc.'s ("ZCL" or the "Company") Management's Discussion and Analysis ("MD&A") of the results of operations, cash flows and financial position as at June 30, 2015, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2015, and the MD&A and audited consolidated financial statements for the year ended December 31, 2014. The statements are available on SEDAR at www.sedar.com or the Company's website at www.zcl.com.

The Company's interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34: "Interim Financial Reporting." The notes to the interim consolidated financial statements are condensed as they do not include all of the information required in the annual consolidated financial statements. All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

Forward-Looking Statements

This MD&A contains forward-looking information based on certain expectations, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For additional information refer to the "Advisory Regarding Forward-Looking Statements" section later in this MD&A.

Non-IFRS Measures

The Company uses both IFRS and non-IFRS measures to make strategic decisions and to set targets. Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, net cash and backlog are non-IFRS measures that are used by the Company. They do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. For additional information refer to the "Non-IFRS Measures" section later in this MD&A.

This MD&A is dated as of July 30, 2015.

CORPORATE PROFILE

ZCL is North America's largest manufacturer and supplier of environmentally friendly fibreglass reinforced plastic ("FRP") underground storage tanks. We also provide custom engineered aboveground FRP and dual-laminate composite storage tanks, piping and lining systems, and related products and accessories where corrosion resistance is a high priority. ZCL has six plants in Canada, six in the US and one in The Netherlands.

The Company has three product groups, Petroleum Products, Water Products and Corrosion Products, and continues to leverage off the strong brand identities of ZCL, Xerxes, Parabeam, ZCL Dualam and ZCL Troy.

The Petroleum and Water Products groups are components of the Underground Fluid Containment ("Underground") operating segment, use a similar production process, and use the brand identities of ZCL, Xerxes, and Parabeam. Corrosion Products are included in the Aboveground Fluid Containment ("Aboveground") operating segment and use the brand identities of ZCL Corrosion, ZCL Dualam and ZCL Troy.

Underground Fluid Containment

Petroleum Products

ZCL is the leading provider of underground fuel storage tanks for the downstream retail and commercial markets in both Canada and the US. The Company also supplies tanks for pipelines (midstream petroleum markets) and for oil and gas exploration companies (upstream petroleum markets). The vast majority of tanks supplied to these markets are double wall tanks, with single wall and triple wall models also available. In addition, ZCL operates internationally through technology licensing agreements.

As an alternative to the replacement of underground storage tanks, ZCL also provides the Phoenix System®. This unique Underwriters Laboratories ("UL") and Underwriters Laboratories of Canada ("ULC") listed tank system allows in-situ upgrades of steel or fibreglass tanks to either a secondary containment system or a fully self-supporting double wall tank. It is an effective alternative to tank replacement.

A key component of both ZCL's double wall tank and the Phoenix System® is Parabeam®, a three-dimensional glass fabric that is manufactured and distributed from the Company's facility in The Netherlands.

Water Products

ZCL's lightweight, watertight and easily installed fibreglass tanks are an ideal alternative to the concrete products that have traditionally dominated this market.

Applications for ZCL's underground FRP storage tanks in the Water Products market include onsite wastewater treatment systems, fire protection systems, potable water storage, rainwater collection, large diameter wet wells and lift stations, grease interceptors and storm water detention systems.

Aboveground Fluid Containment

Corrosion Products

ZCL manufactures custom designed and engineered aboveground tanks, piping and related products and accessories for industrial projects where corrosion and abrasion resistance is high priority. ZCL's capabilities include the manufacture and installation of custom engineered FRP and dual-laminate composite products for use in the power generation, chemical, chloralkali, pulp and paper, agriculture, mining and Oil Sands industries.

OVERALL PERFORMANCE & OUTLOOK

ZCL's revenue and backlog increased in the second quarter of 2015 compared with a year earlier, but gross profit and net income declined. The revenue increase was driven by our Underground operating segment, as the Petroleum Products and Water Products group delivered strong performance. However, revenue in our Aboveground operating segment, primarily in the Canadian Oil Sands, declined sharply from a year ago, leading to the overall decline in gross profit, net income and certain other key metrics.

Based on performance in the first half of 2015 and our robust backlog of \$53.3 million, driven by the Underground operating segment, we expect to grow our overall revenue for the full year 2015. Although we expect to see overall gross margin improvement compared to the first half of 2015, we expect that weakness in the Aboveground operating segment, due primarily to the uncertainty in the energy sector, will impact our profitability in the upcoming quarters.

We continue to believe that ZCL's on-going diversification into non-Petroleum markets such as Water Products and Corrosion Products has long term value, but while our forecasts for Water Products is improving, the current environment for Corrosion Products remains challenging.

Financial Results

Revenue

Revenue for the second quarter ended June 30, 2015 was \$46.7 million, up \$5.0 million or 12% from \$41.7 million earned for the second quarter of 2014. The Underground segment was up 20% relative to the prior year, partially offset by a decline in the Western Canadian operations of the Aboveground segment.

Gross Profit

Gross profit for the second quarter ended June 30, 2015 was \$8.4 million, down \$1.3 million or 13% from \$9.7 million a year earlier. Gross margin of 18% was down five percentage points from 23% of revenue for the second quarter of 2014, with the decrease attributable to the Aboveground segment.

Net Income

Net income for the second quarter ended June 30, 2015 was \$3.4 million, down \$1.1 million or 24% from \$4.5 million a year earlier. Earnings per share for the second quarter of 2015 was \$0.11, down \$0.04 or 27% from \$0.15 per share a year earlier.

Net Cash

As at June 30, 2015, ZCL had a net cash and cash equivalents ("net cash") balance of \$14.8 million compared to \$25.8 million as at December 31, 2014 and \$15.6 million as at June 30, 2014.

Dividends

The Board has maintained the dividend level, declaring a quarterly dividend of \$0.045 per share. The dividend will be paid on October 15, 2015, to the shareholders of record as of September 30, 2015.

Backlog

(\$millions)	Underground	Aboveground	June 30
2015	45.7	7.6	53.3
2014	30.6	13.2	43.8
% change	49%	(42%)	22%

As of June 30, 2015, backlog was \$53.3 million, up \$9.5 million or 22% from \$43.8 million a year earlier. The increase from a year earlier resulted from substantial growth in the Underground segment backlog partially offset by a decrease in Aboveground segment backlog.

In the Underground segment, record quarterly backlog of \$45.7 million was \$15.1 million or 49% higher compared to the same quarter last year, and increases were primarily generated in US Petroleum Products.

Petroleum Products backlog was up \$14.6 million compared to a year earlier. The US Underground operations saw an increase in backlog of \$8.8 million or 35% prior to a positive impact of \$6.3 million on the conversion of US dollar denominated backlog to Canadian dollars for reporting purposes. Before foreign exchange, US Petroleum Products backlog was up \$8.4 million or 39% compared to a year earlier. Canadian Underground operations backlog was down 7% compared to the same quarter of 2014.

Also within Underground, Water Products backlog was up \$0.5 million or 12% compared to the quarter ended June 30, 2014, as a result of a \$0.6 million positive impact from foreign exchange conversion.

At June 30, 2015, the Aboveground segment backlog was down \$5.6 million compared to the same quarter a year earlier. Both US and Canadian markets contributed to the decrease. As a result of weak energy prices, the Oil Sands market backlog was down \$1.5 million compared to a year earlier. The current backlog includes approximately \$2.0 million in orders that have been postponed, likely until 2016. The industrial chemicals and power generation backlog was \$4.1 million lower than a year earlier.

The total backlog increased by \$22.3 million or 72% from \$31.0 million at December 31, 2014, driven by the Underground Product groups which were up over \$24 million. Aboveground backlog was down \$1.9 million compared to December 31, 2014, with the decrease coming from the Industrial Corrosion customers.

Conversion of backlog to revenue for the Underground segment is generally realized in the following quarter. For Aboveground, the conversion of backlog to revenue is less predictable because of variable timelines for design, engineering and production.

Backlog is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and may not be

comparable to similar measures used by other companies. For additional information refer to the "Non-IFRS measures" section later in this MD&A.

Capital Allocation

ZCL maintains a strong balance sheet and net cash position, however we recognize that we must continue to focus on capital allocation in order to best serve our shareholders' interests. During the second quarter, we distributed excess cash to shareholders through the use of the Normal Course Issuer Bid (NCIB) share buyback program that was initiated during the first quarter of 2015. As of June 30, 2015, ZCL repurchased 83,900 shares through the NCIB at a cost of \$585,000, or an average of \$6.97 per share.

Departure of the Chief Operating Officer

Our Chief Operating Officer, Kapul Gill, has resigned from ZCL to pursue other career opportunities. We have commenced a search process for his replacement and have completed a transition plan. His final day with ZCL will be July 31, 2015. Since starting with ZCL in October 2012, Kapul has been instrumental in leading many positive changes within ZCL's operations group.

Outlook

The following represents forward-looking information and readers are cautioned that actual results may differ from expectations.

Our outlook by product group is as follows:

Petroleum Products

Petroleum Products is our largest revenue group and the most mature market. It has three submarkets, Downstream Petroleum (retail), Upstream Petroleum (exploration and production), and Midstream Petroleum (underground tanks for pipeline systems).

Our revenue growth continues to be driven by our Underground segment, and in particular, in the US Downstream Petroleum market. New construction by several segments of our US gasoline retail customer base, ZCL's continued market share gains against our steel tank competitors, and growing awareness of the need to upgrade underground storage tank systems due to the aging of the installed tank base, have all contributed to support revenue growth in this market.

The changing regulatory environment in the US continues to support our view of longer term moderate growth for our Petroleum Products group. Recently, the US Environmental Protection Agency (EPA) has released its long awaited update to underground storage tank (UST) regulations, the first substantial federal regulatory change

for USTs since 1988. Although, the federal regulations are neutral to ZCL, they will be the catalyst for state level UST regulatory changes over the next three years and we expect to benefit from revisions to the regulations in many US states. Already, California has recently enacted regulations requiring the replacement of all currently installed single wall tanks with double wall tanks. Several states have similar regulations in place and more are contemplating putting similar regulations in place. Also, although not an EPA requirement, several states already have in place, or are evaluating putting in place, regulations that require the replacement of USTs at the end of the manufacturers' original warranty period. While none of these state regulations when viewed individually will dramatically impact our business, when taken as a whole these regulatory changes are favourable for ZCL and support our expectation of longer term moderate growth for our Petroleum Products group.

Water Products

We expect revenue growth from our Water Products group as a result of new construction and regulatory changes. In the short term, we anticipate growth as construction recovers in US residential, commercial, industrial, and institutional markets. Over the longer term, we expect ZCL to benefit from regulatory changes resulting from growing concerns about drought conditions, and from changes to local building and zoning codes such as mandatory large-capacity onsite water storage systems for fire suppression systems. Many states and municipalities are also implementing regulations requiring the detention and cleaning of storm water runoff before it reaches municipal sewer systems due to concerns about contaminated storm water runoff negatively impacting rivers, lakes and streams.

Corrosion Products

We do not expect to see revenue growth in our Corrosion Products group in 2015. However, we remain reasonably optimistic about long term prospects for this sector due to the independently forecasted re-shoring of global chemical manufacturing capacity to North America resulting from historically inexpensive and plentiful energy resources, all in a geopolitically safe area of the world.

During the quarter, we restructured our Corrosion sales team and have adopted new selling strategies in order to strengthen and further diversify our Aboveground customer base. We expect this change to enhance our long term growth potential as early efforts have already identified numerous opportunities. Given the long cycle times from quoting to order fulfilment with our large Aboveground orders, we will not see these changes generate a significant increase in Aboveground revenue until 2016 or 2017.

Sales to our customers in the Oil Sands continue to be negatively impacted by lower energy prices as planned capacity expansion projects are delayed or cancelled. We are working with our oil sands customers regarding opportunities for inspection and maintenance work that will position us to take advantage of any upturn in capital spending relating to our products.

Management's Discussion and Analysis

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Operating Results				
Revenue				
Underground Fluid Containment	41,053	34,104	63,928	59,802
Aboveground Fluid Containment	5,611	7,583	14,931	13,477
Total revenue	46,664	41,687	78,859	73,279
Gross profit (note 1)	8,406	9,669	11,421	14,829
Gross margin (note 1)	18%	23%	15%	20%
General and administration	2,376	2,301	4,751	4,576
Foreign exchange loss (gain)	115	178	(951)	76
Depreciation and amortization	953	882	1,880	1,851
Finance expense	74	82	146	167
Loss on disposal of assets	11	15	11	15
Income tax expense	1,477	1,719	1,675	2,280
Net income	3,400	4,492	3,909	5,864
Earnings per share				
Basic	0.11	0.15	0.13	0.20
Diluted	0.11	0.15	0.13	0.20
Cash dividends declared per common share	0.045	0.035	0.09	0.07
Adjusted EBITDA (note 1)	6,052	7,382	7,850	10,541
% of revenue	13%	18%	10%	14%
Adjusted EBITDA per diluted share	0.20	0.24	0.26	0.35
Cash Flows				
Funds from operations (note 1 & 2)	4,601	5,591	5,833	7,793
Changes in non-cash working capital	(6,776)	(4,959)	(11,875)	(4,165)
Net repayment of long term debt and finance lease obligations	(505)	(344)	(948)	(681)
Issuance of common shares on exercise of stock options	152	136	603	403
Repurchase of common shares	(541)	-	(541)	-
Dividends paid	(1,365)	(1,048)	(2,573)	(1,944)
Net purchases of capital and intangible assets	(1,440)	(944)	(2,148)	(1,528)
As at				
(in thousands of dollars)	June 30, 2015 \$	Dec 31, 2014 \$	June 30, 2014 \$	
Financial Position				
Working capital (note 1)	63,976	62,577	51,626	
Total assets	162,083	156,654	140,323	
Net cash (note 1)	14,755	25,788	15,625	
Total non-current liabilities	6,144	6,576	6,547	

Note 1: Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, and net cash are non-IFRS measures and are defined later in this MD&A under "Non-IFRS Measures."

Note 2: Funds from operations does not include changes in non-cash working capital.

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2015

Revenue

(\$000s)	Second Quarter		
	2015	2014	% change
Underground Fluid Containment:			
Petroleum Products	34,270	29,655	16%
Water Products	6,783	4,449	53%
	41,053	34,104	20%
Aboveground Fluid Containment:			
Corrosion Products	5,611	7,583	(26%)
	46,664	41,687	12%

Revenue for the second quarter ended June 30, 2015 was \$46.7 million, up \$5.0 million or 12% from \$41.7 million in the second quarter of 2014. The Underground operating segment was up \$6.9 million or 20%, but this increase was partially offset by a \$2.0 million or 26% decrease in the Aboveground operating segment as compared to the second quarter of 2014. The change in revenue reflects the factors noted below:

Underground Fluid Containment

Underground revenue of \$41.1 million, was \$6.9 million or 20% higher for the quarter ended June 30 2015, compared with the quarter ended June 30, 2014.

The \$4.6 million or 16% increase in Petroleum Products revenue was attributable to the US operations. In the US, revenue was up 12% over the second quarter of 2014 prior to a \$3.3 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. The first quarter of 2015 had strong backlog as a result of delays in customers taking product due to poor weather. This translated into increased revenue in the second quarter of 2015 compared to a year earlier. Sales to retail petroleum marketers were up 14% and sales to distributors and contractors were up 16% compared to the second quarter of 2014.

Canadian Petroleum Products revenue in the second quarter of 2015 was down \$0.8 million as compared to the same quarter of 2014. The decrease was largely driven by decreases in upstream sector sales, which were down \$0.7 million compared to the same quarter in 2014. Upstream sector sales continued to be impacted by the general slowdown resulting from the low energy prices.

Petroleum Products revenue also includes revenue from International operations which were down \$0.3 million compared to the second quarter of 2014.

Water Products revenue in the second quarter of 2015 was \$6.8 million, a quarterly record on a source currency basis. Water Products revenue was up \$2.3 million or 53% compared to the second quarter of 2014. The increase over the prior year included a \$0.8 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. The increase in Water Products revenue was derived from the US operations. Canadian water sales were down \$0.5 million compared to the same quarter in 2014.

Aboveground Fluid Containment

Aboveground revenue of \$5.6 million for the second quarter of 2015 was \$2.0 million or 26% lower than in the same quarter a year earlier, with the decrease coming from the Canadian Oil Sands. Canadian Oil Sands revenue was down \$4.6 million, compared to the same quarter of 2014. The Industrial Corrosion products revenue was up \$0.9 million over the second quarter of 2014. As well, US field service revenue was up \$1.4 million US compared to the same quarter in 2014.

The Aboveground operating segment is more dependent on larger orders that are longer term in nature than the Underground operating segment and timing of revenue recognition can be impacted accordingly.

Gross Profit

(\$000s)	Second Quarter			
	2015	2014	% change	% of rev 2015
Underground Fluid Containment	9,389	8,070	16%	23%
Aboveground Fluid Containment	(983)	1,599	(161%)	(18%)
	8,406	9,669	(13%)	18%

In the second quarter of 2015, gross profit of \$8.4 million was down \$1.3 million or 13% compared to the same quarter in 2014 with the decrease attributable to the Aboveground operating segment. Gross margin decreased to 18% from 23% in 2014. The changes reflected the factors below:

Underground Fluid Containment

Underground gross profit of \$9.4 million was up \$1.3 million or 16%, compared to the same quarter in 2014. Gross margin was 23%, compared to 24% a year earlier.

The gross margin decrease was primarily attributed to the Canadian Underground operations due to increased material costs. Raw materials are purchased in US dollars and the low Canadian dollar has impacted the cost of raw materials in the Canadian operations.

The US Underground gross margin was comparable to the same quarter in 2014.

Aboveground Fluid Containment

Aboveground gross profit was negative \$1.0 million, down \$2.6 million from \$1.6 million in the quarter ended June 30, 2014. The year over year decrease in gross profit and gross margin was attributed to lower sales volume in the Western Canadian operations resulting in a drop in gross profit of \$2.5 million compared to the same quarter a year earlier. The lower sales volume for the second quarter of 2015 impacted the ability to cover the fixed cost base of the manufacturing operations thereby affecting both gross profit and gross margin for the Aboveground operating segment. In addition, low margin Industrial Corrosion projects were unable to compensate for the significant drop in profitability in our Western Canadian Aboveground operations.

General and Administration

(\$000s)	Second Quarter
2015	2,376
2014	2,301
% change	3%

General and administration ("G&A") expense for the quarter ended June 30, 2015 was up slightly compared to the quarter ended June 30, 2014.

Foreign Exchange Loss

(\$000s)	Second Quarter
2015	115
2014	178

The foreign exchange loss was the result of fluctuations in the US dollar conversion rate and the US denominated monetary assets and liabilities held by the Company's Canadian operations.

The following table details the US dollar and euro conversion rates.

US Dollar and Euro Conversion Rates

Second Quarter	2015		2014		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
USD	1.23	1.24	1.09	1.07	13%	16%
euro	1.36	1.37	1.50	1.46	(9%)	(6%)

For additional information on the Company's exposure to fluctuations in foreign exchange rates see the "Financial Instruments" section included later in this MD&A.

Depreciation and Amortization

(\$000s)	Second Quarter
2015	953
2014	882
% change	8%

Depreciation and amortization expense for the quarter ended June 30, 2015 was up \$0.1 million or 8% compared to a year earlier. The increase is a result of the higher capital asset value compared to the prior year due to an increase in the 2014 capital spending program compared to 2013. The increase was partially offset by a decrease in amortization of certain intangible assets on the ZCL-Dualam acquisition which became fully amortized at the beginning of the first quarter of 2015.

Finance Expense

(\$000s)	Second Quarter
2015	74
2014	82
% change	(10%)

The 10% reduction in finance expense in 2015 as compared to the same quarter in 2014 resulted from the year over year reduction in long term debt and a slight reduction of the lending rate that occurred in the second quarter of 2015.

Income Taxes

Income tax expense for the three months ended June 30, 2015, represented 30% of pre-tax income, compared to 28% of pre-tax income in 2014. The increase in the effective tax rate is due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Comprehensive Income

Comprehensive income for each period is comprised of net income and the effects of translation of foreign operations with functional currencies denominated in US dollars and euros. For accounting purposes, assets and liabilities of these foreign operations are translated at the exchange rate in effect on the balance sheet date.

The table below details the impact of the translation of foreign operations on other comprehensive income before the impact of net income.

(\$000s)	Second Quarter
2015	(1,691)
2014	(2,409)

The foreign translation loss in 2015 was due to the weakening of the US dollar relative to the Canadian dollar throughout the three months ended June 30, 2015 from 1.26 to 1.24. In the second quarter of 2014, the US dollar also weakened from 1.11 to 1.07 and therefore generated a loss on the translation of foreign operations.

FOR THE SIX MONTHS ENDED JUNE 30, 2015

Revenue

(\$000s)	Six Months		
	2015	2014	% change
Underground Fluid Containment:			
Petroleum Products	53,703	51,782	4%
Water Products	10,225	8,020	28%
	63,928	59,802	7%
Aboveground Fluid Containment:			
Corrosion Products	14,931	13,477	11%
	78,859	73,279	8%

Revenue for the first half of 2015 was \$78.9 million, up \$5.6 million or 8% from \$73.3 million for the first half of 2014. The increases were derived from all Product groups. The change in revenue reflects the factors noted below:

Underground Fluid Containment

Underground revenue of \$63.9 million, was \$4.1 million or 7% higher for the six months ended June 30, 2015, compared with the six months ended June 30, 2014.

Petroleum Products sales were up \$1.9 million or 4% over the first half of 2014, with the year over year increase coming from foreign exchange translation to Canadian dollars for reporting purposes due to a stronger US dollar in 2015. US Petroleum Products revenue was comparable to the first half of 2014 before the positive impact of foreign exchange translation. However, revenue from the Canadian Petroleum Products group was down \$2.4 million year over year. The Canadian revenue decrease is a result of a \$2.5 million year over year reduction in Upstream revenue which has been negatively impacted by the low price of oil.

Petroleum Products revenue also includes revenue from International operations which were down \$0.6 million year over year due primarily to a reduction in international lining projects, but also third party Parabeam sales.

The \$2.2 million or 28% increase in Water Products revenue in 2015 compared to the first six months of 2014 was attributable to US sales. Included in the year over year increase is a \$1.2 million positive impact on the conversion of US dollar denominated sales to Canadian dollars for reporting purposes.

Aboveground Fluid Containment

Aboveground revenue of \$14.9 million for the first half of 2015 was \$1.5 million or 11% higher than the same period a year earlier. The increase was attributable to the Industrial Corrosion markets which were up \$6.9 million year over year, including US field service revenue. Western Canadian Oil Sands revenue was down \$5.5 million compared to the first half of 2014.

The Aboveground operating segment is more dependent on larger orders that are longer term in nature than the Underground operating segment, and the timing of revenue recognition is impacted accordingly.

Gross Profit

(\$000s)	Six Months			
	2015	2014	% change	% of rev 2015
Underground Fluid Containment	13,349	13,021	3%	21%
Aboveground Fluid Containment	(1,928)	1,808	(207%)	(13%)
	11,421	14,829	(23%)	14%

During the first half of 2015, gross profit of \$11.4 million decreased by \$3.4 million or 23% compared to the first half of 2014. Gross margin decreased to 14% from 20% in 2014, with the decrease attributable to the Aboveground operating segment, which was impacted by negative margin projects in the first quarter of 2015 and low sales volume in the Oil Sands market in the second quarter of 2015. These changes reflect the factors discussed below:

Underground Fluid Containment

Underground gross profit of \$13.3 million in the first half of 2015 was up \$0.3 million or 3% compared to the first half of 2014. Gross margin of 21% was down slightly from 22% for first half of 2014.

Aboveground Fluid Containment

Aboveground gross profit was negative \$1.9 million, down \$3.7 million from the six months ended June 30, 2014. The reduction in gross profit and gross margin was attributed to three negative margin Industrial Corrosion projects in the first quarter of 2015 and lower sales volume in all markets, particularly in the second quarter of 2015. The lower second quarter sales volume in the Industrial Corrosion markets impacted the ability to cover the fixed cost base of the Industrial Corrosion manufacturing operations thereby affecting both gross profit and gross margin for the Aboveground operating segment.

General and Administration

(\$000s)	Six Months
2015	4,751
2014	4,576
% change	4%

General and administration ("G&A") expense for the six months ended June 30, 2015, was up \$0.2 million or 4% compared to the first six months of 2014. The year over year increase was the result of the conversion of US dollar denominated G&A to Canadian dollars for reporting purposes as well as a change in director compensation to deferred share units ("DSUs") from stock options. DSUs are fully expensed in the period they were issued compared to stock options which are expensed over the vesting period. Other than the foreign exchange translation and change in director's compensation, general and administrative expenses were lower in the first half of 2015 compared to the prior year.

Foreign Exchange (Gain) Loss

(\$000s)	Six Months
2015	(951)
2014	76

The foreign exchange (gain) loss for each period primarily related to the combination of fluctuations in the US dollar conversion rate and the US denominated monetary assets and liabilities held by the Company's Canadian operations.

The following table details the US dollar and euro conversion rates.

US Dollar and euro Conversion Rates

Six Months	2015		2014		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
USD	1.23	1.24	1.10	1.07	12%	16%
euro	1.38	1.37	1.50	1.46	(8%)	(6%)

For additional information on the Company's exposure to fluctuations in foreign exchange rates see the "Financial Instruments" section included later in this MD&A.

Depreciation and Amortization

(\$000s)	Six Months
2015	1,880
2014	1,851
% change	2%

Depreciation and amortization expense for the first half of 2015 was comparable to the first half of 2014.

Finance Expense

(\$000s)	Six Months
2015	146
2014	167
% change	(13%)

The 13% reduction in finance expense in 2015 compared to the same period in 2014 resulted from the year over year reduction in long term debt and a slight reduction of the lending rate that occurred in the second quarter of 2015.

Income Taxes

Income tax expense for the six months ended June 30, 2015, represented 30% of pre-tax income, compared to 28% of pre-tax income in 2014. The increase in the effective tax rate is due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Comprehensive Income

Comprehensive income for each period is comprised of net income and the effects of translation of foreign operations with functional currencies denominated in US dollars and euros. For accounting purposes, assets and liabilities of these foreign operations are translated at the exchange rate in effect on the balance sheet date.

The table below details the impact of the translation of foreign operations on other comprehensive income before the impact of net income.

(\$000s)	Six Months
2015	3,909
2014	(356)

The foreign translation gain in the first half of 2015 was due to the weakening of the Canadian dollar relative to the US dollar. In 2014, the US dollar strengthened relative to the Canadian dollar which generated a gain on the translation of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at June 30, 2015, the Company increased working capital (current assets less current liabilities) by \$1.4 million to \$64.0 million compared to \$62.6 million as at December 31, 2014. This increase is the result of an increase in inventories and accounts receivable as well as decreases in accounts payable and income taxes payable.

As at June 30, 2015, the Company had cash and cash equivalents of \$17.3 million (December 31, 2014 - \$28.4 million) and net cash of \$14.8 million (December 31, 2014 - net cash of \$25.8 million). The decrease in net cash during the first half of 2015 is the result of a planned finished goods inventory build in our US Underground operations, in which Petroleum tanks have been built in anticipation of increased second half 2015 demand relative to 2014. Net cash is defined later in this MD&A under "Non-IFRS Measures."

Management believes that internally generated cash flows, along with the available revolving operating credit facility, will be sufficient to cover the Company's normal operating and capital expenditures for the foreseeable future.

Credit Arrangements

The Company's operating credit facility is provided by a Canadian chartered bank. The maximum available funds under this facility is \$20.0 million. The operating facility is due on demand and matures on May 31, 2017.

The Company's term loan is provided by a Canadian chartered bank and requires monthly interest payments and quarterly principal repayments of \$0.3 million US dollars, with the balance due on maturity on May 31, 2017. The interest charged on the loan is the US dollar based 30-day LIBOR plus 175 basis points. The Company is also subject to mandatory repayments of outstanding principal equal to 100% of any net proceeds on asset disposals and insurance proceeds received by the Company.

Share Capital

During the three and six months ended June 30, 2015, the company issued 42,569 shares and 165,639 shares respectively on the exercise of stock options. Also during the three and six months ended June 30, 2015, ZCL repurchased and cancelled 83,900 shares through the Normal Course Issuer Bid implemented in March, 2015.

Cash Flows

(\$000's)	Second Quarter		Six Months	
	2015	2014	2015	2014
Operating activities	(2,175)	632	(6,042)	3,628
Financing activities	(2,259)	(1,256)	(3,459)	(2,222)
Investing activities	(1,440)	(944)	(2,148)	(1,528)
Foreign exchange ⁽¹⁾	(186)	(342)	550	(74)
	(6,060)	(1,910)	(11,099)	(196)

(1) Foreign exchange (loss) gain on cash held in foreign currency.

Operating Activities

The cash flows from operating activities reflect the net impact of i) funds from operations (for additional information see the "Non-IFRS Measures" section later in this MD&A) and ii) changes in non-cash working capital.

Funds from operations totalled \$4.6 million and \$5.8 million for the three and six months ended June 30, 2015 respectively, compared to \$5.6 million and \$7.8 million for the three and six months ended June 30, 2014. The decrease relative to 2014 is due primarily to the reduction in gross profit.

Changes in non-cash working capital totalled negative \$6.8 million and negative \$11.9 million for the three and six months ended June 30, 2015, compared to negative \$5.0 million and negative \$4.2 million for the three and six months ended June 30, 2014. For the three months ended June 30, 2015, the increase in accounts receivable was much higher relative to the same quarter a year earlier resulting in a higher use of cash. The increase in accounts payable and accrued liabilities was much larger in the second quarter of 2014, relative to the current quarter, further contributing to the quarterly difference.

For the six months ended June 30, 2015, accounts payable and accrued liabilities and income taxes payable decreased relative to the year end balance, whereas in 2014 there was an increase in both balances. The decrease in accounts payable stems from some of the larger Aboveground projects that were in progress at year end and completed at the end of the first quarter of 2015 or the beginning of the second quarter of 2015. Income taxes payable are down relative to a year earlier due to a decrease in net income. In addition, accounts receivable increased in 2015 relative to the year end balance, whereas in the comparative period, accounts receivable decreased.

Financing Activities

Cash flows used in financing activities were \$2.3 million for the three months ended June 30, 2015 and \$1.3 million for the three months ended June 30, 2014. The increase in 2015 compared to the prior year is primarily due to the repurchase of shares through the NCIB and an increase in the dividend. Cash flows used in financing activities were \$3.5 million for the six months ended June 30, 2015 and \$2.2 million for the comparative period. The increase in cash flows used in financing activities in 2014 is due to the same factors noted for the three month period.

Investing Activities

The cash flows used in investing activities were \$1.4 million and \$2.1 million for the three and six months ended June 30, 2015 compared to \$0.9 million and \$1.5 million for the three and six months ended June 30, 2014. The primary contributor in each of the periods is the purchase of property, plant and equipment.

Contractual Obligations

The Company's captive insurance company, Radigan Insurance Inc. ("Radigan") provides insurance coverage for Canadian product warranties and US general liability and workers compensation. Radigan holds restricted cash equivalents of \$0.25 million US as collateral on a contract performance guarantee.

The Company has provided a letter of credit in the amount of \$0.3 million US to secure a line of credit for the same amount for our US operations. The Company has also provided two letters of credit for a total of \$0.9

million US to secure claims for the Company's US workers' compensation program. In the normal course of business, the Company provides letters of credit as collateral for contract performance guarantees. As at June 30, 2015, the performance letters of credit issued totalled \$0.5 million.

As at June 30, 2015, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive equipment totalled \$11.2 million.

During the six months ended June 30, 2015, the Company entered into a finance lease to acquire a crane with a market value of \$715,000. The lease is non-interest bearing for a period of 20 months and expires in November, 2016, at which point title will pass to the Company.

The following table summarizes the Company's contractual obligations due over the next five years and thereafter:

(\$000s)	Long Term Debt and Finance Lease	Operating Leases	Total
2015	1,010	1,560	2,570
2016	1,525	2,455	3,980
2017	-	1,697	1,697
2018	-	1,197	1,197
2019	-	825	825
Thereafter	-	3,498	3,498
Total	2,535	11,232	13,767

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for \$4,000 (2014 - 17,000) for the three months ended June 30, 2015, and \$13,000 (2014 - \$38,000) for the six months ended June 30, 2015, included in manufacturing and selling costs or inventories, were provided by a corporation whose Executive Chairman is a director of the Company. The transactions were incurred in the normal

course of operations and recorded at the exchange amount being normal commercial rates for the products. Accounts payable and accrued liabilities at June 30, 2015, included \$1,000 (December 31, 2014 - \$11,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

SUMMARY OF QUARTERLY RESULTS

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

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first half of the year, particularly in the first quarter. In addition, the Company is subject to

fluctuations in the US to Canadian dollar exchange rate since a significant portion of its revenue is denominated in US dollars. Over the past eight quarters, the US to Canadian dollar conversion rate has ranged from a low of 1.03 in the third quarter of 2013 to a high of 1.26 in the first quarter of 2015.

For the three months ended	2015		2014				2013	
(in thousands of dollars, except per share amounts)	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$
Revenue	46,664	32,195	48,195	49,361	41,687	31,592	37,715	43,931
Net income	3,400	509	4,895	5,557	4,492	1,372	1,769	4,993
Adjusted EBITDA (note 1)	6,052	1,800	7,702	8,834	7,382	3,159	3,975	8,512
Basic earnings per share	0.11	0.02	0.16	0.19	0.15	0.05	0.06	0.17
Diluted earnings per share	0.11	0.02	0.16	0.18	0.15	0.05	0.06	0.17
Adjusted EBITDA per diluted share (note 1)	0.20	0.06	0.25	0.29	0.24	0.10	0.13	0.28
Dividends declared per share	0.045	0.045	0.04	0.04	0.035	0.035	0.03	0.03

Note 1: Adjusted EBITDA and adjusted EBITDA per diluted share are non-IFRS measures and are defined later in this MD&A under "Non-IFRS Measures."

OUTSTANDING SHARE DATA

As at July 30, 2015, there were 30,298,765 common shares and 1,661,345 share options outstanding. Of the options outstanding, 865,796 are currently exercisable into common shares. ZCL repurchased and cancelled 137,000 shares through the Normal Course Issuer Bid implemented in March, 2015.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure they are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not currently have a practice of trading derivatives and had no derivative instruments outstanding at June 30, 2015.

Interest Rate Risk

The Company's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing the Company's financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the related impact on the return earned on cash and cash equivalents, restricted cash and the expense on floating rate debt. On an ongoing basis, management monitors changes in short term interest rates and considers long term forecasts to assess the potential cash flow impact on the Company. The Company does not currently hold any financial instruments to mitigate its interest rate risk. Cash and cash equivalents and restricted cash earn interest based on market interest rates. Bank indebtedness balances and long term debt have floating interest rates which are subject to market fluctuations.

The effective interest rate on the bank indebtedness balance as at June 30, 2015, was prime plus 25 basis points, 3.10% (December 31, 2014 - prime plus 75 basis points, 3.75%). The effective interest rate on the term loan balance as at June 30, 2015, was the 30 day US LIBOR rate plus 175 basis points, 1.94% (December 31, 2014 - US LIBOR rate plus 225 basis points, 2.42%). With other variables unchanged, an increase or decrease of 100 basis points in the US LIBOR and Canadian prime interest rate as at June 30, 2015 would have a minimal impact on net income for the three and six months ended June 30, 2015.

Foreign Exchange Risk

The Company operates on an international basis and is exposed to foreign exchange risk arising from transactions denominated in foreign currencies. The Company's objective with respect to foreign exchange risk is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management. Foreign currency exchange risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company's most significant foreign exchange risk arises primarily

with respect to the US dollar. The revenues and expenses of the Company's US operations are denominated in US dollars. Certain of the revenue and expenses of the Canadian operations are also denominated in US dollars. The Company is also exposed to foreign exchange risk associated with the euro due to its operations in The Netherlands, however, these amounts are not significant to the Company's consolidated financial results. On an ongoing basis, management monitors changes in foreign currency exchange rates and considers long term forecasts to assess the potential cash flow impact on the Company.

The tables that follow provide an indication of the Company's exposure to changes in the value of the US dollar relative to the Canadian dollar, as at and for the six months ended June 30, 2015. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the period ("balance sheet exposure"), which are separated by domestic and foreign operations, and US dollar denominated revenue and operating expenses during the period ("operating exposure").

Balance sheet exposure related to financial assets, net of financial liabilities, at June 30, 2015, was as follows:

(in thousands of US dollars)	\$
Foreign operations	6,753
Domestic operations	9,016
Net balance sheet exposure	15,769

Operating exposure for the six months ended June 30, 2015, was as follows:

(in thousands of US dollars)	\$
Sales	51,592
Operating expenses	44,794
Net operating exposure	6,798

The weighted average US to Canadian dollar translation rate was 1.23 for the six months ended June 30, 2015. The translation rate as at June 30, 2015 was 1.24.

Based on the foreign currency exposures noted above, with other variables unchanged, a 20% change in the Canadian dollar would have impacted net income for the six months ended June 30, 2015, as follows:

(in thousands of US dollars)	\$
Net balance sheet exposure of domestic operations	1,343
Net operating exposure of foreign operations	837
Change in net income	2,180

Comprehensive income would have changed \$0.9 million due to the net balance sheet exposure of financial assets and liabilities of foreign operations. The timing and volume of the above transactions, as well as the timing of their settlement, could impact the sensitivity of the analysis.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk through its cash and cash equivalents, restricted cash and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents and restricted cash by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for trade and other accounts receivable are managed through established credit monitoring activities. The Company also mitigates its credit risk on trade accounts receivable by obtaining a cash deposit from certain customers with no prior order history with the Company, or where the Company perceives the customer has a higher level of risk.

The Company has a concentration of customers in the upstream and downstream oil and gas and industrial corrosion sectors. The concentration risk is mitigated by the number of customers, growth and diversification of the customer base and by a significant portion of the customers being large international organizations. As at June 30, 2015, no single customer exceeded 10% of the consolidated trade accounts receivable balance. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

The Company reviews its trade accounts receivable regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectable. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. Estimates for the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date, taking into account the amounts which are past due and any available relevant information on

the customers' liquidity and going concern status. After all efforts of collection have failed, the accounts receivable balance not collected is written off with an offset to the allowance for doubtful accounts, with no impact on net income.

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of \$ 28.1 million as at June 30, 2015 (December 31, 2014 - \$27.1 million). On a geographic basis as at June 30, 2015, approximately 29% (December 31, 2014 - 48%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 71% (December 31, 2014 - 52%) was due from US customers.

Payment terms are generally net 30 days. As at June 30, 2015, the percentages of trade accounts receivable were as follows:

	June 30, 2015	December 31, 2014
Current	67%	58%
Past due 1 to 30 days	23%	23%
Past due 31 to 60 days	8%	13%
Past due 61 to 90 days	1%	3%
Past due greater than 90 days	1%	3%
Total	100%	100%

Liquidity Risk

The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. On an ongoing basis, liquidity risk is managed by maintaining adequate cash and cash equivalent balances and appropriately utilizing available lines of credit. Management believes that forecasted cash flows from operating activities, along with the available lines of credit, will provide sufficient cash requirements to cover the Company's forecasted normal operating activities, commitments and budgeted capital expenditures.

The Company has pledged as general collateral for advances under the operating credit facility and the bank term loan 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 not permitted to sell or re-pledge significant assets held under collateral without consent from the lenders.

For information on contractual maturities on long term obligations, please refer to the "Capital Resources" section of this MD&A.

RISKS AND UNCERTAINTIES

The Company is subject to a number of known and unknown risks, uncertainties and other factors that could cause the Company's actual future results to differ materially from those historically achieved and those reflected in forward-looking statements made by the Company. These factors include, but are not limited to, fluctuations in the level of capital expenditures in the Petroleum Products, Water Products and Corrosion Products markets; drilling activity and oil and natural gas prices and other factors that affect demand for the Company's products and services; industry competition; the need to effectively integrate acquired businesses; the ability of management to implement the Company's business strategy effectively; political and general economic conditions; the ability to attract and retain key personnel; raw material and labour costs; fluctuations in the US and Canadian dollar exchange rates; accounts receivable risk; the ability to generate capital or maintain liquidity and credit agreements necessary to fund future operations; and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form and elsewhere in other documents filed with Canadian provincial securities authorities which are available to the public at www.sedar.com.

Environmental Risks

To conduct business operations, the Company owns or leases properties and is subject to environmental risks due to the use of chemicals in the manufacturing process.

ZCL manages its environmental risks by appropriately dealing with chemicals and waste material in an environmentally safe and responsible manner, and in accordance with applicable regulatory requirements. In addition, the Company has a Health, Safety and Environment Committee that meets regularly to review and monitor environmental issues, compliance, risks and mitigation strategies. However, it is unknown whether specific environmental conditions and incidents will impact ZCL operations in the future.

The Company elects to partially self-insure against risk of environmental contamination at its production facilities as it has determined the risk to be low. The Company is not aware of any unrecorded material environmental liabilities.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements have been prepared following IFRS. The measurement of certain assets and liabilities is dependent upon future events and the outcome will not be fully known until future periods. Therefore, the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates and assumptions have been made using careful judgments, which in management's opinion, are reasonable and conform to the significant accounting policies summarized in the December 31, 2014 annual consolidated financial statements. Actual results may vary from those estimated.

Impairment

The Company assesses impairment at each reporting period by evaluating the circumstances specific to the organization that may lead to an impairment of assets. In addition to the quarterly assessment, the Company also performs an annual impairment test on goodwill and certain intangible assets in accordance with IAS 36: "Impairment of Assets."

Where indicators of impairment exist, and at least annually for goodwill and certain intangible assets, the recoverable amount of the asset or group of assets (cash generating units) is compared against the carrying amount. Any excess of the carrying amount over the recoverable amount will be recognized as an impairment loss in the income statement. The recoverable amount is calculated as the higher of the assets' (or group of assets) value in use or fair value less cost to sell. The actual growth rates and other estimates used in the determination of fair values at the time of impairment tests may vary materially from those realized in future periods.

Property, Plant and Equipment, Intangible Assets and Goodwill

Property, plant and equipment and intangible assets with finite lives are recorded at cost less accumulated depreciation and amortization. Goodwill and indefinite life intangible assets are recorded at cost. The unamortized balances, or carrying values, are regularly reviewed for recoverability or tested for impairment whenever events or circumstances indicate that these amounts exceed their fair values. The valuation of these assets is based on estimated future net cash flows, taking into account current and future industry and other conditions. An impairment loss would be recognized for the amount that the carrying value exceeds the fair value.

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

Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of depreciation and amortization. The estimates of cash flows used to assess the potential impairment of these assets are subject to measurement uncertainty. A significant change in these estimates and judgments could result in a material change to depreciation and amortization expense or impairment charges.

Allowance for Doubtful Accounts

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

Self-insured Liabilities

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

Project Cost Forecasting

The Company routinely enters into large field service and manufacturing projects in the Aboveground operating segment. On an ongoing basis and at every reporting period, management performs an analysis on these projects to estimate if the total expected project costs are recoverable relative to the purchase order value of the project. Anticipated losses on projects are recognized as soon as they can be reliably measured. The actual outcome of these projects may differ from those estimates, and the difference may be material.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to 30 years for corrosion, if the products are properly installed and are used solely for storage of specified liquids. In Canada, until January 31, 2015, the Company marketed a storage system under the Prezerver® trademark that carried an enhanced protection program. The Prezerver system included an enhanced 10 year limited warranty covering product replacement, third-party pollution protection, site clean-up and defence costs up to the limits allowed under the warranty. Until December 1, 2006, the Canadian Prezerver program was covered by insurance

underwritten by a major international insurer. Effective December 1, 2006, the Company formed its own insurance captive to insure the Prezerver program. Effective January 31, 2015, the Company ceased offering the Canadian Prezerver program due to changing market conditions.

The Company provides for warranty obligations based on a review of products sold and historical warranty costs experienced. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur. While the Company maintains high quality standards and has a limited history of liability or warranty problems under its standard warranties or Prezerver program, there can be no guarantee that the warranty provision recorded, self-insurance provided by ZCL's captive insurance company or third party insurance will be sufficient to cover all potential claims. Excluding the enhanced Prezerver warranty, the maximum exposure to the Company for warranty claims is, at the Company's sole discretion, to repair or replace the product giving rise to the claim. The actual costs of warranties may vary from those estimated, and the difference may be material.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of ZCL on a timely basis so that appropriate decisions can be made regarding public disclosure. In accordance with National Instrument 52-109: "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as of the quarter ended June 30, 2015. Based on that evaluation, the CEO and CFO have concluded that the disclosure control procedures are effective and provide reasonable assurance that: (a) information required to be disclosed by the Company in its quarterly interim filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (b) material information regarding the Company is accumulated and communicated to management, including its CEO and CFO in a timely manner.

Internal Controls over Financial Reporting ("ICFR")

Management has evaluated whether there were changes in the Company's ICFR during the period ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified. There were also no material weaknesses relating to the design of ICFR at June 30, 2015, and no limitations on the scope of design of ICFRs.

While management of the Company have evaluated the effectiveness of disclosure controls and procedures and ICFR as of June 30, 2015, and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and ICFR may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute assurance that the objectives of the control system are met.

NON-IFRS MEASURES

The Company uses both IFRS and non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS measures provide useful supplemental information to investors. Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, net cash and backlog are measures used by the Company that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Included below are tables calculating or reconciling these non-IFRS measures where applicable.

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

Gross margin is defined as gross profit divided by revenue.

Adjusted EBITDA is defined as income from operations before finance expense, income taxes, share-based compensation, depreciation of property, plant and equipment, amortization of deferred development costs and intangible assets, gains or losses on sale of assets, and impairment of assets. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net income as determined in accordance with IFRS.

Adjusted EBITDA per diluted share is defined as adjusted EBITDA divided by weighted average diluted shares outstanding.

Funds from operations are defined as cash flows from operating activities before changes in non-cash working capital.

Working capital is defined as current assets less current liabilities.

Net cash is defined as cash and cash equivalents less long term debt, current portion of long term debt, finance lease, current portion of finance lease and bank indebtedness.

Backlog is defined as the total value of orders that have not yet been included in revenue and that management has assessed as having a high certainty of being performed because of the existence of a contract or purchase order specifying the scope, value and timing of an order.

RECONCILIATION OF NON-IFRS MEASURES

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

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$
Revenue	46,664	41,687	78,859	73,279
Manufacturing and selling costs	38,258	32,018	67,438	58,450
Gross profit	8,406	9,669	11,421	14,829
<i>Gross margin</i>	18%	23%	14%	20%

The following table reconciles net income in accordance with IFRS to EBITDA and adjusted EBITDA.

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$
Net income	3,400	4,492	3,909	5,864
Adjustments:				
Depreciation and amortization	953	882	1,880	1,851
Finance expense	74	82	146	167
Income tax expense	1,477	1,719	1,675	2,280
EBITDA	5,904	7,175	7,610	10,162
Share-based compensation	137	192	231	364
Loss on disposal of assets	11	15	11	15
Adjusted EBITDA	6,052	7,382	7,852	10,541
<i>Adjusted EBITDA as a % of revenue</i>	13%	18%	10%	14%

The following table presents the calculation of adjusted EBITDA per diluted share:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Numerator (in thousands of dollars)	\$	\$	\$	\$
Adjusted EBITDA	6,052	7,382	7,852	10,541
Denominator (in thousands)	#	#	#	#
Weighted average shares outstanding – basic	30,347	29,944	30,301	29,918
Effect of dilutive securities:				
Stock options	427	517	396	518
Weighted average shares outstanding - diluted	30,774	30,461	30,697	30,436
Adjusted EBITDA per diluted share	0.20	0.24	0.26	0.35

Management's Discussion and Analysis

The following table presents the calculation of funds from operations.

	Three Months Ended June 30		Six Months Ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
(in thousands of dollars)				
Net income from operations	3,400	4,492	3,909	5,864
Add (deduct) items not affecting cash:				
Depreciation and amortization	953	882	1,880	1,851
Deferred tax expense (recovery)	100	10	(198)	(301)
Loss on disposal of assets	11	15	11	15
Share-based compensation	137	192	231	364
Funds from operations	4,601	5,591	5,833	7,793

The following table presents the calculation of working capital.

	As at		
	June 30, 2015 \$	December 31, 2014 \$	June 30, 2014 \$
(in thousands of dollars)			
Current assets	91,184	89,259	76,466
Current liabilities	27,208	26,682	24,840
Working capital	63,976	62,577	51,626

The following table presents the calculation of net cash.

	As at		
	June 30, 2015 \$	December 31, 2014 \$	June 30, 2014 \$
(in thousands of dollars)			
Cash and cash equivalents	17,290	28,389	18,686
Less: Bank indebtedness	-	-	-
Less: Long term debt (including current portion)	(1,963)	(2,601)	(3,061)
Less: Finance lease (including current portion)	(572)	-	-
Net cash	14,775	25,788	15,625

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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

These factors include, but are not limited to, fluctuations in the level of capital expenditures in the Petroleum Products, Water Products, and Corrosion Products markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively, political and economic conditions, the Company's ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US dollar, euro and Canadian dollar exchange rates, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in this document and other documents filed with Canadian provincial securities authorities. These documents are available to the public at www.sedar.com. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and the reporting currency is in Canadian dollars.

In addition to the factors noted above, management cautions readers that the current economic environment could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve its financial targets. Factors such as continuing global economic uncertainty, tight lending standards, volatile capital markets, fluctuating commodity prices, and other factors could negatively impact the demand for the Company's products and the Company's ability to grow or sustain revenues and earnings. Fluctuations in conversion rates of the US dollar to Canadian dollar and euro to Canadian dollar also have the potential to impact the Company's revenues and earnings.

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

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

ZCL Composites Inc.

Interim Condensed Consolidated Financial Statements and Notes

For the three and six months ended June 30, 2015 and 2014

(Unaudited)

Interim Condensed Consolidated Financial Statements

Interim Consolidated Balance Sheets

As at
(Unaudited)

	June 30, 2015 \$	December 31, 2014 \$
(in thousands of dollars)		
ASSETS		
Current		
Cash and cash equivalents	17,290	28,389
Accounts receivable	29,174	27,793
Inventories <i>[note 4]</i>	41,066	31,028
Income taxes recoverable	2,585	980
Prepaid expenses	1,069	1,069
	91,184	89,259
Property, plant and equipment	31,212	29,143
Intangible assets	3,359	3,819
Goodwill	35,827	33,950
Restricted cash	309	291
Other assets	192	192
TOTAL ASSETS	162,083	156,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	18,052	19,045
Dividends payable <i>[note 8]</i>	1,367	1,208
Income taxes payable	151	278
Deferred revenue	4,540	3,600
Current portion of provisions	1,078	1,053
Current portion of long term debt <i>[note 6]</i>	1,591	1,498
Current portion of finance lease <i>[note 7]</i>	429	—
	27,208	26,682
Deferred tax liabilities	4,163	4,220
Long term portion of provisions	1,466	1,253
Long term debt <i>[note 6]</i>	372	1,103
Long term portion of finance lease <i>[note 7]</i>	143	—
TOTAL LIABILITIES	33,352	33,258
Shareholders' equity		
Share capital <i>[note 9]</i>	76,791	76,592
Contributed surplus	2,618	2,568
Accumulated other comprehensive income	4,915	1,006
Retained earnings	44,407	43,230
TOTAL SHAREHOLDERS' EQUITY	128,731	123,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	162,083	156,654

See accompanying notes

Interim Condensed Consolidated Financial Statements

Interim Consolidated Statements of Income

For the periods ended June 30,
(Unaudited)

	Three months		Six months	
	2015	2014	2015	2014
(in thousands of dollars, except per share amounts)	\$	\$	\$	\$
Revenue	46,664	41,687	78,859	73,279
Manufacturing and selling costs <i>[note 5]</i>	38,258	32,018	67,438	58,450
Gross profit	8,406	9,669	11,421	14,829
General and administration	2,376	2,301	4,751	4,576
Foreign exchange loss (gain)	115	178	(951)	76
Depreciation and amortization	953	882	1,880	1,851
Finance expense	74	82	146	167
Loss on disposal of property, plant and equipment	11	15	11	15
	3,529	3,458	5,837	6,685
Income before income taxes	4,877	6,211	5,584	8,144
Income tax expense (recovery)				
Current	1,377	1,709	1,873	2,581
Deferred	100	10	(198)	(301)
	1,477	1,719	1,675	2,280
Net income	3,400	4,492	3,909	5,864
Earnings per share <i>[note 11]</i>				
Basic	\$0.11	\$0.15	\$0.13	\$0.20
Diluted	\$0.11	\$0.15	\$0.13	\$0.20

See accompanying notes

Interim Condensed Consolidated Financial Statements

Interim Consolidated Statements of Comprehensive Income

For the periods ended June 30,
(Unaudited)

(in thousands of dollars)	Three months		Six months	
	2015 \$	2014 \$	2015 \$	2014 \$
Net income	3,400	4,492	3,909	5,864
Translation of foreign operations	(1,691)	(2,409)	3,909	(356)
Total items that will be reclassified subsequently to net income	(1,691)	(2,409)	3,909	(356)
Comprehensive income	1,709	2,083	7,818	5,508

Interim Consolidated Statements of Shareholders' Equity

For the six months ended
(Unaudited)

(in thousands)	Common Shares #	Share Capital \$	Contributed Surplus \$	Accumulated Other Comprehensive Income (Loss) \$	Retained Earnings \$	Total \$
Balance, December 31, 2014	30,214	76,592	2,568	1,006	43,230	123,396
Share-based payments <i>[note 10]</i>	—	—	231	—	—	231
Shares issued on exercise of options <i>[note 9]</i>	165	603	—	—	—	603
Shares repurchased through normal course issuer bid <i>[note 9]</i>	(84)	(585)	—	—	—	(585)
Reclassification of fair value of options previously expensed	—	181	(181)	—	—	—
Translation of foreign operations	—	—	—	3,909	—	3,909
Dividends declared <i>[note 8]</i>	—	—	—	—	(2,732)	(2,732)
Net income	—	—	—	—	3,909	3,909
Balance, June 30, 2015	30,295	76,791	2,618	4,915	44,407	128,731
Balance, December 31, 2013	29,848	74,846	2,301	(3,808)	31,419	104,758
Share-based payments <i>[note 10]</i>	—	—	364	—	—	364
Shares issued on exercise of options <i>[note 9]</i>	119	403	—	—	—	403
Reclassification of fair value of options previously expensed	—	120	(120)	—	—	—
Translation of foreign operations	—	—	—	(356)	—	(356)
Dividends declared <i>[note 8]</i>	—	—	—	—	(2,097)	(2,097)
Net income	—	—	—	—	5,864	5,864
Balance, June 30, 2014	29,967	75,369	2,545	(4,164)	35,186	108,936

See accompanying notes

Interim Condensed Consolidated Financial Statements

Interim Consolidated Statements of Cash Flows

For the periods ended June 30,
(Unaudited)

	Three months		Six months	
	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	3,400	4,492	3,909	5,864
Add (deduct) items not affecting cash:				
Depreciation and amortization	953	882	1,880	1,851
Deferred tax expense (recovery)	100	10	(198)	(301)
Loss on disposal of property, plant and equipment	11	15	11	15
Share-based compensation expense <i>[note 10]</i>	137	192	231	364
Funds from operations	4,601	5,591	5,833	7,793
Changes in non-cash working capital:				
(Increase) decrease in accounts receivable	(5,446)	(2,803)	(296)	1,547
Decrease (increase) in inventories	842	(3,607)	(8,866)	(8,485)
Decrease (increase) in prepaid expenses	123	(15)	23	(23)
Increase (decrease) in accounts payable, accrued liabilities and provisions	485	3,016	(1,648)	2,601
(Decrease) increase in deferred revenue	(2,164)	(1,572)	715	21
(Decrease) increase in income taxes payable	(616)	22	(1,803)	174
Total changes in non-cash working capital	(6,776)	(4,959)	(11,875)	(4,165)
Cash flows (used in) from operating activities	(2,175)	632	(6,042)	3,628
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of common shares on the exercise of options <i>[note 9]</i>	152	136	603	403
Repurchase of shares through normal course issuer bid <i>[note 9]</i>	(541)	—	(541)	—
Dividends paid <i>[note 8]</i>	(1,365)	(1,048)	(2,573)	(1,944)
Repayment of long term debt	(398)	(344)	(805)	(681)
Repayment of finance lease	(107)	—	(143)	—
Cash flows used in financing activities	(2,259)	(1,256)	(3,459)	(2,222)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,440)	(954)	(2,128)	(1,538)
Disposal of property, plant and equipment	—	10	—	10
Purchase of intangible assets	—	—	(20)	—
Cash flows used in investing activities	(1,440)	(944)	(2,148)	(1,528)
Foreign exchange (loss) gain on cash held in foreign currency	(186)	(342)	550	(74)
Decrease in cash and cash equivalents	(6,060)	(1,910)	(11,099)	(196)
Cash and cash equivalents, beginning of the period	23,350	20,596	28,389	18,882
Cash and cash equivalents, end of the period	17,290	18,686	17,290	18,686

See accompanying notes

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2015

1. CORPORATE INFORMATION

ZCL Composites Inc. (the “Company”) is a public company incorporated and domiciled in Canada and its common stock trades on the Toronto Stock Exchange. The address of the Company’s registered office is 1420 Parsons Road S.W., Edmonton, Alberta, Canada, T6X 1M5. The Company is principally involved in the manufacturing and distribution of liquid storage systems, including fibreglass underground and aboveground storage tanks, dual-laminate composite tanks and related products and accessories. The Company also produces and sells in-situ fibreglass tank and tank lining systems and three dimensional glass fabric material.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements are reported in Canadian dollars which is the functional currency of the reporting entity, ZCL Composites Inc.

Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”) and do not include all of the information required for full annual financial statements. The same accounting policies were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2014. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 30, 2015.

Basis of Consolidation

The interim condensed consolidated financial statements of the Company include the accounts of ZCL Composites Inc. and its subsidiaries including Parabeam Industries BV, Radigan Insurance Inc., ZCL International SRL, ZCL-Dualam Inc., C.P.F. Dualam (U.S.A.) Inc., Troy Mfg. (Texas), Inc. and Xerxes Corporation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost over the fair values of the identifiable net assets acquired is recognized as goodwill. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3. SIGNIFICANT ACCOUNTING POLICIES

Share-based payments

Cash-settled transactions:

Under the Company’s 2015 Incentive Plan, directors of the board of the Company may receive deferred share units (“DSU”) equal to one common share and senior management may receive performance share units (“PSU”) that vest and are to be settled after a three year period. The cost of cash-settled transactions is measured initially at fair value based on the stock price of the Company’s common shares. The fair value is expensed upon issue with the recognition of a corresponding liability. This liability is remeasured to the fair market value at each reporting date, up to and including the settlement date, with changes in fair value recognized in general and administrative expenses.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

4. INVENTORIES

As at	June 30, 2015	December 31, 2014
(in thousands of dollars)	\$	\$
Raw materials	13,005	11,729
Work in progress	5,708	6,097
Finished goods	22,353	13,202
	41,066	31,028

5. MANUFACTURING AND SELLING COSTS

For the periods ended June 30,

	Three months		Six months	
	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$
Raw materials	14,499	16,083	29,746	30,770
Labour costs	9,213	7,712	19,397	15,032
Other costs	12,903	10,246	27,057	20,039
Net change in inventories of finished goods and work in progress	1,643	(2,023)	(8,762)	(7,391)
	38,258	32,018	67,438	58,450

6. LONG TERM DEBT

As at	June 30, 2015	December 31, 2014
(in thousands of dollars)	\$	\$
Term loan	1,963	2,601
Total long term debt	1,963	2,601
Less current portion	1,591	1,498
	372	1,103

Excluding financing cost, the principal balance of the term loan as at June 30, 2015 is \$1,609,000 USD (December 31, 2014 – \$2,253,000 USD) which is a reasonable estimate of its fair value.

The term loan requires monthly interest payments and quarterly principal repayments of \$322,000 US dollars, with the balance due on maturity on May 31, 2017. The interest charged on the loan is the US dollar based 30-day LIBOR rate plus 175 basis points. The Company is also subject to mandatory prepayments of outstanding principal equal to 100% of any net proceeds on asset disposals and insurance proceeds received by the Company.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

7. FINANCE LEASE

During the six months ended June 30, 2015, the Company entered into a finance lease to acquire a crane with a market value of \$715,000. The lease is non-interest bearing for a period of 20 months and expires in November, 2016 at which point title will pass to the Company. The carrying value of the crane as at June 30, 2015 is \$691,000 which is included in the property, plant and equipment on the Company's balance sheet.

8. DIVIDENDS

Dividends declared for the six months ended June 30,

(in thousands of dollars,
except per share amounts)

2015				2014			
Declared	Per share	Paid to shareholders	Total \$	Declared	Per share	Paid to shareholders	Total \$
March 5, 2015	\$0.045	April 15, 2015	1,365	March 7, 2014	\$0.035	April 15, 2014	1,048
May 7, 2015	\$0.045	July 15, 2015	1,367	May 5, 2014	\$0.035	July 15, 2014	1,049
	\$0.090		2,732		\$0.070		2,097

As at

	June 30 2015	December 31 2014
(in thousands of dollars)	\$	\$
Payable, beginning of period	1,208	896
Declared	2,732	4,505
Paid in cash	(2,573)	(4,193)
Payable, end of period	1,367	1,208

On July 30, 2015, the Company's Board of Directors declared a dividend of \$0.045 per common share to be paid on October 15, 2015 to the shareholders of record as of September 30, 2015.

9. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par or stated value.

Issued and outstanding

During the three months ended June 30, 2015, the Company issued 42,569 common shares (2014 – 40,105) at an average rate of \$3.57 per share for options exercised resulting in cash proceeds to the Company of \$152,000 (2014 - \$136,000). During the six months ended June 30, 2015, the Company issued 165,369 common shares (2014 – 119,140) at an average rate of \$3.64 per share for options exercised resulting in cash proceeds to the Company of \$603,000 (2014 - \$403,000).

In March 2015, the Company entered into a Normal Course Issuer Bid ("NCIB") with the intent to re-purchase and cancel up to 750,000 shares from the open market. During the three and six months ended June 30, 2015, the Company purchased and cancelled a total of 83,900 shares at an average price of \$6.97.

As at June 30, 2015, the Company had 30,294,932 common shares outstanding (June 30, 2014 – 29,967,060).

10. SHARE BASED PAYMENTS

a) Stock-options

The Black-Scholes option pricing model, used by the Company to calculate the values of options, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely-tradable, fully-transferable options without vesting restrictions. These models require assumptions, including future share price volatility and expected time until exercise, which affect the calculated values.

For the six months ended June 30,

	2015		2014	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Balance, as at January 1	1,516,716	4.79	1,929,261	4.56
Awarded	343,000	6.74	-	-
Exercised	(122,800)	3.67	(79,035)	3.38
Forfeited	(17,000)	4.44	(8,666)	5.09
Balance, as at March 31	1,719,916	5.26	1,841,560	4.61
Exercised	(42,569)	3.57	(40,105)	3.38
Forfeited	(3,334)	6.88	(13,000)	3.19
Balance, as at June 30	1,674,013	5.30	1,788,455	4.65

Share based compensation expense of \$137,000 (2014 - \$192,000) during the three months ended June 30, 2015, and \$231,000 (2014 - \$364,000) during the six months ended June 30, 2015 was recorded in manufacturing and selling costs and general and administration expenses in the interim condensed consolidated statements of income relating to stock options.

b) Performance share units

Under the Company's 2015 Incentive Plan, named executive officers may be awarded performance share units ("PSU") equal to the cash equivalent of one common share of ZCL stock. These PSUs vest over a three year period and are contingent on the Company achieving certain performance objectives. For the PSUs that vest, the unit holders will receive a cash payment based on the closing price of the Company's common shares on the expiry date of the units. Dividend equivalent rights are granted in tandem with the PSUs. During the three months ended June 30, 2015, there were no PSUs awarded and \$9,000 of compensation expense (2014 - \$nil) was recognized in general and administrative expenses. For the six months ended June 30, 2015, the Company awarded 14,825 PSUs (2014 - nil) and \$12,000 of compensation expense (2014 - \$nil) was recognized in general and administrative expenses. As at June 30, 2015, the amortized fair value of the PSUs on the Company's balance sheet was \$12,000 (December 31, 2014 - \$nil).

c) Deferred share units

Under the Company's 2015 Incentive Plan, directors may be awarded Deferred Share Units ("DSU") equal to the cash equivalent of one common share of ZCL stock. The DSUs vest on their grant date and are paid in cash to the holder upon retirement from the Company based on the market value of ZCL stock on the date of their retirement. Dividend equivalent rights are granted in tandem with the DSUs. During the three months ended June 30, 2015, the Company awarded no DSUs and \$11,000 of compensation expense (2014 - \$nil) was recognized in general and administrative expenses. For the six months ended June 30, 2015, the Company awarded 26,000 DSUs (2014 - nil) and \$183,000 of compensation expense (2014 - \$nil) was recognized in general and administrative expenses. As at June 30, 2015, the fair value of the DSUs on the company's balance sheet was \$183,000 (December 31, 2014 - \$nil).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

11. 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 periods ended June 30,

	Three months		Six months	
	2015	2014	2015	2014
Numerator (in thousands of dollars)	\$	\$	\$	\$
Net income	3,400	4,492	3,909	5,864

	Three months		Six months	
	2015	2014	2015	2014
Denominator (in thousands)	#	#	#	#
Weighted average shares outstanding - basic	30,347	29,944	30,301	29,918
Effect of dilutive securities:				
Stock options	427	517	396	518
Weighted average shares outstanding - diluted	30,774	30,461	30,697	30,436

12. RELATED PARTY TRANSACTIONS

Certain manufacturing components purchased for \$4,000 (2014 - \$17,000) for the three months and \$13,000 (2014 - \$38,000) for the six months ended June 30, 2015, included in manufacturing and selling costs or inventories, were provided by a corporation whose Executive Chairman is a director of the Company. The transactions were incurred in the normal course of operations and recorded at the amounts representative of normal commercial rates for the products. Accounts payable and accrued liabilities as at June 30, 2015 included \$1,000 (December 31, 2014 - \$11,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

13. CAPITAL RISK MANAGEMENT

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise. The Company defines capital that it manages as the aggregate of its long term debt and shareholders' equity, which is comprised of issued capital, contributed surplus and retained earnings.

a) Long term debt and adjusted capital employed:

As at

	June 30, 2015 \$	December 31, 2014 \$
(in thousands of dollars)		
Current portion of long term debt	1,591	1,498
Long term debt [note 6]	372	1,103
Finance lease [note 7]	572	—
Total long term debt	2,535	2,601
Share capital	76,791	76,592
Contributed surplus	2,618	2,568
Retained earnings	44,407	43,230
Adjusted shareholders' equity	123,816	122,390
Adjusted capital employed	126,351	124,991

Management considers changes in economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities in managing its capital. Management considers adjustments to its ratio of long term debt to adjusted capital employed when significant changes in these factors are expected. Management considers the ratio of long term debt to adjusted capital employed of 2% as at June 30, 2015 (December 31, 2014 – 2%) to be low. Adjusted capital employed is defined as long term debt plus total shareholders' equity excluding accumulated other comprehensive income.

b) Debt management

Under its long term credit facilities, the Company must maintain a number of financial covenants on a quarterly basis. These covenants include, but are not limited to, a debt to tangible net worth ratio, fixed charge coverage ratio, and a current ratio. These ratios are calculated in accordance with the credit facility and are not necessarily consistent with figures presented in these interim condensed consolidated financial statements under International Financial Reporting Standards.

The following summarizes the financial ratios mentioned above calculated in accordance with the Company's credit facility:

	June 30, 2015 Actual	June 30, 2015 Required	December 31, 2014 Actual	December 31, 2014 Required
Minimum shareholders' equity value	\$129 million	n/a	\$123 million	>\$50 million
Debt to tangible net worth	0.03	<2.0	0.03	<2.0
Fixed charge coverage ratio	3.0	>1.5	4.0	>1.5
Current ratio	3.4	>1.25	3.3	n/a

On an ongoing basis, management expects to continue meeting all financial covenants under its current credit facility.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company holds financial instruments consisting of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, dividends payable and long term debt.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair value due to their short term nature.

The carrying value of long term debt approximates its fair value as changes in interest rates are not expected to significantly impact the value of the loan. In addition, the interest rates are the market rates at each reporting period.

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 in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. The Company operates substantially all of its activities in two reportable segments, Underground Fluid Containment ("Underground") and Aboveground Fluid Containment ("Aboveground").

a) Information about reportable segments

For the three months ended June 30,

	Underground		Aboveground		Total	
	2015	2014	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Revenue	41,053	34,104	5,611	7,583	46,664	41,687
Manufacturing and selling costs	31,664	26,034	6,594	5,984	38,258	32,018
Gross profit	9,389	8,070	(983)	1,599	8,406	9,669

For the six months ended June 30,

	Underground		Aboveground		Total	
	2015	2014	2015	2014	2015	2014
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Revenue	63,928	59,802	14,931	13,477	78,859	73,279
Manufacturing and selling costs	50,579	46,781	16,859	11,669	67,438	58,450
Gross profit	13,349	13,021	(1,928)	1,808	11,421	14,829

Manufacturing and selling costs are the only costs that are directly attributable to the Underground and Aboveground operating segments. All other costs are not specifically identifiable to an individual segment and management has determined that there is no rational basis on which to allocate general and administration and other expenses. Only a gross profit measure is reported to the Chief Executive Officer on a regular basis; therefore gross profit is disclosed as the measure of profit.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

	Inventories		Property, plant and equipment		Intangible assets and goodwill	
As at	June 30, 2015	Dec 31, 2014	June 30, 2015	Dec 31, 2014	June 30, 2015	Dec 31, 2014
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Underground	37,497	26,442	25,526	23,689	35,792	34,297
Aboveground	3,569	4,586	5,686	5,454	3,394	3,472
Total	41,066	31,028	31,212	29,143	39,186	37,769

The only assets that can be identified by reportable segments and are reported to the Chief Executive Officer, are inventories, property, plant and equipment, intangible assets and goodwill. All other current and long term assets, as well as current and long term liabilities are not segregated into the reportable segments.

b) Information about major customers

The Company has long term contracts and arrangements with many of the major oil and gas companies in Canada and provides products for equipment distributors and retail fuel marketers in the United States. For the three and six months ended June 30, 2015 and 2014, no single customer exceeded 10% of total revenue.

c) Information about geographic areas

Revenue for the periods ended June 30,

	Three months		Six months	
(in thousands of dollars)	2015	2014	2015	2014
	\$	\$	\$	\$
Canada	10,461	14,766	21,547	26,208
United States	35,802	25,514	56,429	45,066
International	401	1,407	883	2,005
	46,664	41,687	78,859	73,279

	Total assets		Property, plant and equipment, intangible assets and goodwill	
As at	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
(in thousands of dollars)	\$	\$	\$	\$
Canada	57,143	62,552	26,763	25,577
United States	101,199	90,377	42,837	40,417
International	3,741	3,725	798	918
	162,083	156,654	70,398	66,912