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 September 30, 2016, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2016, and the MD&A and audited consolidated financial statements for the year ended December 31, 2015. 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 November 2, 2016.

CORPORATE PROFILE

ZCL is North America's largest manufacturer and supplier of environmentally friendly fibreglass reinforced plastic ("FRP") underground storage tanks. ZCL has two plants in Canada, four in the US and one in The Netherlands.

The Company's primary product groups are Petroleum Products and Water Products and use the brand identities of ZCL, Xerxes, and Parabeam.

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.

Industrial Products

ZCL also manufactures and supplies storage tanks, piping and accessories for Industrial Products within two limited geographic markets in North America. We manufacture and supply our Industrial Products in Western Canada and the Western US where we have sustaining competitive advantages.

OVERALL PERFORMANCE & OUTLOOK

During the third quarter of 2016, ZCL achieved record revenue and record gross profit from continuing operations. We paid off our term debt and our balance sheet remains very strong with working capital of $68.3 million, including a cash balance of $38.1 million.

Also during the third quarter, we exited the ZCL Dualam operations through the execution of three separate asset sale transactions and the completion of the sale of the former ZCL Dualam plant in Montreal. The completion of these transactions allows ZCL to acutely focus on further expansion of our core and emerging markets served by our Petroleum, Water and Industrial Products groups.

Looking ahead, we remain confident that revenue from continuing operations for 2016 will grow over revenue earned in 2015. We are keeping our balance sheet strong to maintain flexibility and preserve our ability to take advantage of future organic and acquisitive growth opportunities.

Financial Results

Revenue

For the third quarter of 2016, record revenue from continuing operations was $57.9 million, up $2.3 million or 4% from $55.6 million in the third quarter of 2015.

Gross Profit

Record gross profit from continuing operations for the third quarter of 2016 was $14.5 million, up $0.8 million or 6% from $13.7 million a year earlier. Gross margin from continuing operations was 25% for both periods.

Adjusted EBITDA

Adjusted EBITDA for the third quarter of 2016 was $12.1 million (21% of revenue), compared to $12.2 million (22% of revenue) a year earlier. Excluding the impact of foreign exchange gains, adjusted EBITDA would have been $0.5 million higher than a year earlier.

Net Income from Continuing Operations

Net income from continuing operations for the third quarter ended September 30, 2016 was $7.7 million, down $0.2 million or 2% from $7.9 million a year earlier. Earnings per share from continuing operations for the third quarter of 2016 were $0.25, compared to $0.26 per share a year earlier. Excluding the impact of foreign exchange gains, net income would have been $0.3 million higher than a year earlier.

Discontinued Operations

For the third quarter of 2016, net loss from discontinued operations, being the ZCL Dualam operations, was $1.2 million compared to a net loss of $2.7 million a year earlier.

Net Income

Net income for the third quarter ended September 30, 2016 was $6.5 million, up $1.3 million or 25% from $5.2 million a year earlier. Earnings per share for the third quarter of 2016 were $0.21, up from $0.17 per share a year earlier. The increase is attributable to the smaller net loss on discontinued operations.

Net Cash

As at September 30, 2016, ZCL had a net cash and cash equivalents ("net cash") balance of $38.1 million compared to $39.1 million as at December 31, 2015 and $21.4 million as at September 30, 2015.

We maintain cash and cash equivalents of at least $10 million in order to effectively manage our self-insurance obligations and to fund the operational needs in foreign jurisdictions. The complexities of running international operations results in challenges obtaining debt outside of North America and therefore these operations are financed through cash.

Dividends

The Board has maintained the dividend level, declaring a quarterly dividend of $0.08 per share, up 60% from $0.05 paid a year earlier. The dividend will be paid on January 16, 2017, to the shareholders of record as of December 30, 2016.

Backlog

($millions)	Sept 30, 2016	Sept 30, 2015	% Change
Petroleum	41.5	38.1	9%
Water	4.4	6.0	(26%)
Industrial	0.6	3.7	(84%)
Total	46.5	47.8	(3%)

Backlog was $46.5 million, down $1.3 million or 3% from $47.8 million a year earlier. The decrease from a year earlier resulted from a reduction in Water Products and Industrial Products (formerly a component of Corrosion Products) backlog partially offset by a $3.3 million increase in the Petroleum Products backlog.

Petroleum Products backlog of $41.5 million was up $3.3 million or 9% compared to a year earlier. The increase in Petroleum Products backlog was driven by both Canadian and US customers. On a source currency basis, Petroleum Products backlog was up 12% compared to a year earlier.

Water Products backlog of $4.4 million was down $1.6 million or 26% compared with a year earlier. The reduction in backlog was primarily driven by a reduction in US Water Products backlog where customer orders have been slower to come to fruition. On a source currency basis, Water Products backlog was down $1.1 million or 25% compared with September 30, 2015.

Industrial Products backlog of $0.6 million was down $3.1 million from $3.7 million a year earlier. Industrial Products backlog includes backlog from our Edmonton Corrosion facility as well as Industrial Products manufactured in our Anaheim, CA facility. Industrial Products backlog manufactured in Anaheim, CA was previously included in Petroleum Products as a component of the former Underground Operating Segment. The year over year reduction in backlog was driven by a $3.2 million decrease in Western Canadian backlog, attributable to lower demand from the oil sands sector. This decrease was partially offset by an increase in Western US backlog.

The total backlog decreased by $8.5 million or 16% from $55.0 million at June 30, 2016 due to the normal seasonal nature of the business. Petroleum Products backlog was down $6.9 million or 14% compared to a quarter earlier. Water Products was down $0.8 million or 15% and Industrial Products was down $0.8 million compared with June 30, 2016.

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 has developed a consistently profitable, high free cash flow business model and will continue to act in a measured and strategic manner as it relates to investing and distributing our capital. The key levers of our capital allocation strategy are:

1. Fund all organic growth opportunities that meet the objectives of our strategic plan. Our expected capital (including maintenance capital) expenditures are typically around $5 million annually, however in 2016, we expect this to be reduced to between $3 and $4 million.

2. Continue to evaluate and pursue opportunities to grow through strategic acquisitions.

3. Continue to distribute cash to shareholders in the form of dividends.

Outlook

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

With the successful exit of the Dualam operations, ZCL is focused on its core business. For the fourth quarter of 2016 we expect to have no further losses from discontinued operations.

ZCL's portfolio of Petroleum Products, Water Products and Industrial Products possess significant competitive advantages and present a strong value proposition to our customers. We remain confident that we will be able to sustain organic compound annual growth rates in both revenues and earnings of 10% over the longer term, however achievement of this growth rate in any individual year cannot be assured.

The previously anticipated positive impacts from the ZCL Dualam exit on margins and profitability from our continuing operations are evidenced by our strong third quarter results. Gross margin of 25%, in the third quarter of 2015 and 2016, and EBITDA margin of 21%, compared to 22% in 2015, are in line with our forecast level of profitability from continuing operations. It is important to remember that ZCL will continue to experience seasonal variations in our profitability due to volume considerations, but we remain confident that we will be able to achieve an overall level of profitability higher than past years with targeted full year adjusted EBITDA margins in the 16-18% range.

Petroleum Products

We expect Petroleum Products growth will continue to be led by increasing volume from larger fuel retailers, particularly in the US. These retailers are building an increasing number of "new to industry" downstream retail fueling sites as they compete for market share. Accelerating tank replacement programs due to the aging of the installed tank base also continue to support growth in this market. Some studies[1] estimate that 15-20% of the retail fuel tanks in service today are older than 30 years, and that 50-60% are older than 20 years. Increasing pressure from bankers, insurers and regulators, who are motivated to mitigate financial and environmental risk factors by removing older tanks from service, is supporting this replacement activity.

Additionally, although steel tanks make up a relatively small and shrinking percentage of new tanks being sold today, the installed tank base is still approximately 50% steel. As today's fuels continue to evolve, a growing awareness of internal corrosion of steel tanks is supporting an increasing rate of replacement demand for this segment of the installed tank base.

A tangible example of increasing concerns about internal corrosion of steel tanks is the recently issued US Environmental Protection Agency ("EPA") Office of Underground Storage Tanks July 2016 Notice of Corrosion Risks in Underground Storage Tanks Storing Diesel Fuel. This widely disseminated notice alerts owners of underground storage tank systems storing diesel fuel that it is recommended to check inside their tanks for corrosion, which research suggests is now appearing on metal equipment in most tank systems. The EPA notice specifically states that "in steel tanks, corrosion can cause direct tank failure and releases to the environment" and "this corrosion also appears to present a risk to the integrity of tanks, especially in the bottom of metal tanks where water and sludge may accumulate." The notice goes on to discuss "severe and rapid corrosion of internal metal components of tanks storing diesel fuel."

We exited the third quarter of 2016 with a strong Petroleum Products backlog. Although backlog generally turns within the following quarter, weather and construction scheduling factors may result in some sales being deferred to future quarters.

[1] Sources include a study published in October, 2015 from the Association of State and Territorial Solid Waste Management Officials titled "An Analysis of UST Systems Infrastructure in Select States".

Water Products

Although not reflected in our 2016 revenues and current backlog as at the end of the third quarter of 2016, we continue to believe that our Water Products group is also poised for growth. Increasing general construction activity across a broad cross section of markets, and growing awareness of water as the next scarce commodity, are driving demand for water storage solutions. We are in the process of completing an in-depth review of our Water Products sales and marketing strategies and anticipate making changes over the coming weeks and months to increase our revenue and market share.

Industrial Products

We expect Industrial Products, the remaining portion of our former Corrosion Products business, will be less than 5% of our total revenues going forward. Our Industrial Products group currently operates in two limited geographic markets where we have competitive advantages that allow us to generate returns comparable to our Petroleum Products and Water Products:

- Western Canada from our Edmonton, AB plant
- Western US from our Anaheim, CA plant

We expect relatively stable Industrial Products performance for our Anaheim plant, which serves a range of industrial and municipal markets. However, Industrial Products results for our Edmonton plant, which primarily serves the Alberta Oil Sands sector, will likely remain weak until oil prices improve.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Three Months Ended September 30 2016 $	2015 $	Nine Months Ended September 30 2016 $	2015 $
Operating Results				
Revenue	**57,885**	55,636	**137,521**	120,544
Gross profit *(note 1)*	**14,496**	13,703	**31,686**	26,215
Gross margin (note 1)	***25%***	*25%*	***23%***	*22%*
General and administration	**2,428**	2,241	**7,715**	6,852
Foreign exchange (gain) loss	**(1)**	(652)	**643**	(1,431)
Depreciation and amortization	**854**	853	**2,535**	2,456
Finance expense	**77**	100	**222**	246
Loss (gain) on disposal of assets	**-**	18	**(5)**	29
Impairment of assets	**-**	-	**46**	-
Income tax expense	**3,397**	3,247	**6,261**	5,324
Net income from continuing operations	**7,741**	7,896	**14,269**	12,739
Net loss from discontinued operations	**(1,249)**	(2,691)	**(5,184)**	(3,625)
Net income	**6,492**	5,205	**9,085**	9,114
Earnings per share from continuing operations				
Basic	**0.25**	0.26	**0.47**	0.42
Diluted	**0.25**	0.26	**0.46**	0.42
Earnings per share				
Basic and diluted	**0.21**	0.17	**0.30**	0.30
Cash dividends declared per common share	**0.08**	0.045	**0.74**	0.135
Adjusted EBITDA *(note 1)*	**12,125**	12,172	**23,560**	21,084
Adjusted EBITDA as % of revenue	***21%***	*22%*	***17%***	*17%*
Adjusted EBITDA per diluted share	**0.39**	0.40	**0.77**	0.69
Cash Flows				
Funds from continuing operations *(note 1 & 2)*	**8,744**	8,898	**16,325**	15,388
Changes in non-cash working capital	**11,389**	1,153	**5,517**	(10,721)
Net repayment of long term debt and finance lease obligations	**(567)**	(538)	**(1,616)**	(1,486)
Issuance of common shares on exercise of stock options	**338**	137	**1,657**	740
Repurchase of common shares	**-**	(2,706)	**-**	(3,247)
Dividends paid	**(2,444)**	(1,367)	**(21,590)**	(3,940)
Net purchases of capital and intangible assets	**(516)**	(494)	**(1,347)**	(2,303)
Discontinued operations	**615**	289	**(800)**	(710)

(in thousands of dollars)	As at Sept 30, 2016 $	Dec 31, 2015 $	Sept 30, 2015 $
Financial Position			
Working capital *(note 1)*	**68,268**	76,781	71,344
Total assets	**164,818**	177,544	174,694
Net cash *(note 1)*	**38,080**	39,095	21,440
Total non-current liabilities	**4,488**	5,015	5,254

Note 1: Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from continuing 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 continuing operations does not include changes in non-cash working capital.

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

Revenue

	Third Quarter		
($000s)	**2016**	**2015**	**% change**
Petroleum Products	**50,525**	47,334	7%
Water Products	**5,902**	6,794	(13%)
Industrial Products	**1,458**	1,508	(3%)
	57,885	55,636	4%

Revenue from continuing operations for the third quarter of 2016 was a quarterly record $57.9 million, up $2.3 million or 4% from $55.6 million in the third quarter of 2015.

The change in revenue reflects the factors noted below:

Petroleum Products

The record quarterly revenue was driven by Petroleum Products revenue of $50.5 million which was up $3.2 million or 7% compared to the third quarter of 2015. In the US, revenue was up $1.3 million over the third quarter of 2015 prior to a $0.3 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. Sales to retail petroleum marketers were up 13% while sales to distributors and contractors were down 11% compared to the third quarter of 2015.

Canadian Petroleum Products revenue was up $0.5 million as compared to the third quarter of 2015. The increase over 2015 was driven by a 17% increase in sales to distributors and a $0.3 million increase in sales to midstream pipeline operators, partially offset by a reduction in sales to major oil customers.

Petroleum Products revenue also includes revenue from International operations which were up $1.0 million compared to the third quarter of 2015 due primarily to increased Parabeam® 3-D fabric sales to licensees.

Water Products

Water Products revenue in the third quarter of 2016 was $5.9 million, down $0.9 million compared to the same quarter in 2015. Canadian water sales were down slightly over the third quarter of 2015. Deferrals in construction spending in the US, in addition to challenges with our current sales strategy, have contributed to the year over year decrease in Water Product sales in the US.

Industrial Products

Industrial Products revenue of $1.5 million was comparable to the same period a year earlier. A $0.8 million increase in revenue in the Western US Industrial Products market was offset by a decrease in Western Canadian Industrial revenue compared with the same quarter a year earlier.

The Western US revenue was previously included with Petroleum Products as the manufacturing occurs in our facility in Anaheim, CA, which was a component of our former Underground Operating Segment.

Gross Profit

	Third Quarter		
($000s)	**2016**	**2015**	**% change**
Gross profit	**14,496**	13,703	6%
Gross margin	***25%***	*25%*	

In the third quarter of 2016, gross profit from continuing operations was $14.5 million, a quarterly record, up $0.8 million or 6% from $13.7 million in the third quarter of 2015. Gross margin from continuing operations was 25% for both periods.

General and Administration

($000s)	**Third Quarter**
2016	2,428
2015	2,241
% change	8%

General and administration (“G&A”) expense for the quarter ended September 30, 2016 was up $0.2 million compared to a year earlier. The increase in G&A was primarily a result of higher director and executive compensation which is partially correlated with the market value of ZCL shares as at the end of September, 2016 compared with a year earlier. Directors are primarily compensated through deferred share unites (DSUs) which are “marked to market” every quarter.

Foreign Exchange Gain

($000s)	Third Quarter
2016	(1)
2015	(652)

The foreign exchange gain 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

Third Quarter	2016		2015			
	Avg.	**Close**	Avg.	Close	Avg. Change	Close Change
USD	**1.30**	**1.31**	1.31	1.34	(1%)	(2%)
euro	**1.46**	**1.47**	1.45	1.51	(1%)	(3%)

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)	Third Quarter
2016	854
2015	853
% change	nil

Depreciation and amortization expense for the quarter ended September 30, 2016 was comparable to a year earlier.

Finance Expense

($000s)	Third Quarter
2016	77
2015	100
% change	(23%)

The finance expense for the quarter ended September 30, 2016 was down 23% compared to the expense incurred in the same quarter of 2015 due to the lower value of the term loan balance in 2016. The term loan was fully repaid on September 30, 2016.

Income Taxes

Income tax expense for the three months ended September 30, 2016, represented 30.5% of pre-tax income, compared to 29% of pre-tax income in 2015. The increase in the effective tax rate is due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Disposal of Assets and Discontinued Operations

During the third quarter of 2016, the Company divested certain assets and ceased operations of the former ZCL Dualam operations. The financial results from the former ZCL Dualam operations are included in "Discontinued Operations" in this MD&A.

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)	Third Quarter
2016	1,491
2015	7,302

The foreign translation gain in 2016 was due to the strengthening of the US dollar relative to the Canadian dollar from 1.30 to 1.31 throughout the three months ended September 30, 2016. In the third quarter of 2015, the US dollar also strengthened from 1.24 to 1.34 and therefore generated a gain on the translation of foreign operations.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Revenue

	Nine Months		
($000s)	**2016**	**2015**	**% change**
Petroleum Products	**116,427**	100,260	16%
Water Products	**16,514**	17,018	(3%)
Industrial Products	**4,580**	3,266	40%
	137,521	120,544	14%

Revenue from continuing operations for the first nine months of 2016 was $137.5 million, up $17.0 million or 14% from $120.5 million for the first nine months of 2015.

The change in revenue reflects the factors noted below:

Petroleum Products

Petroleum Products sales of $116.4 million were up $16.2 million or 16% over the nine months of 2015, with the majority of the increase coming from sales to US customers. US Petroleum Products revenue was up $8.8 million or 14% over the first nine months of 2016 prior to a $5.7 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. The increase in US Petroleum revenue was driven by increased sales to retail petroleum marketers, up 20% compared with a year earlier. Sales to US distributors and contractors increased by 3% when compared to the first nine months of 2015.

Revenue from the Canadian Petroleum Products group was comparable to a year earlier. Sales to major oil customers remain soft due to the low price of oil. However Canadian distribution sales are up by almost $3.9 million or 56% when compared with the same period in 2015.

Petroleum Products revenue also includes revenue from International operations which were up $1.7 million year over year primarily due to increased Parabeam® 3-D fabric sales to licensees.

Water Products

Water Products revenue of $16.5 million was down $0.5 million or 3% compared to the first nine months of 2015. Water Products sales were down 5% year over year, prior to a positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes.

Industrial Products

Industrial Products revenue of $4.6 million for the first nine months of 2016 was up $1.3 million or 40% compared to the same period a year earlier. The increase in revenue was driven by a substantial increase in revenue in the Western US Industrial Products market.

The Western US revenue was previously included with Petroleum Products as the manufacturing occurs in our facility in Anaheim, CA, which was a component of our former Underground Operating Segment.

Gross Profit

	Nine Months		
($000s)	**2016**	**2015**	**% change**
Gross profit	**31,686**	26,215	21%
Gross margin	***23%***	*22%*	

During the first nine months of 2016, gross profit from continuing operations of $31.7 million increased by $5.5 million or 21% compared to the first nine months of 2015. Gross margin increased to 23% from 22% in 2015, with the increase primarily attributable to the US operations.

The year over year increase in gross profit and gross margin was attributed to higher sales volume over the fixed cost base of the manufacturing operations.

General and Administration

($000s)	**Nine Months**
2016	7,715
2015	6,852
% change	13%

General and administration ("G&A") expense for the nine months ended September 30, 2016, was up $0.9 million or 13% compared to the first nine months of 2015. The year over year increase was primarily due to increased professional fees of $0.5 million incurred in the first quarter of 2016 which are not expected to be replicated.

In addition, director compensation has increased due to the increase of the market value of the ZCL share price as at the end of September, 2016 compared with a year earlier. Directors are primarily compensated through deferred share unites (DSUs) which are "marked to market" every quarter.

Foreign Exchange Loss (Gain)

($000s)	Nine Months
2016	643
2015	(1,431)

The foreign exchange loss (gain) 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

Nine Months	2016		2015			
	Avg.	**Close**	Avg.	Close	Avg. Change	Close Change
USD	**1.32**	**1.31**	1.26	1.34	5%	(2%)
euro	**1.48**	**1.47**	1.40	1.51	6%	(4%)

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)	Nine Months
2016	2,535
2015	2,456
% change	3%

Depreciation and amortization expense for the first nine months of 2016 was comparable to the first nine months of 2015.

Finance Expense

($000s)	Nine Months
2016	222
2015	246
% change	(10%)

Finance expense for the first nine months of 2016 was down 10% compared to the first nine months of 2015 due to the reduction in the value of the term debt in 2016 compared to a year earlier.

Income Taxes

Income tax expense for the nine months ended September 30, 2016, represented 30.5% of pre-tax income, compared to 29.5% of pre-tax income in 2015. The increase in the effective tax rate is due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Disposal of Assets and Discontinued Operations

During the third quarter of 2016, the Company divested certain assets and ceased operations of the former ZCL Dualam operations. The financial results from the former ZCL Dualam operations are included in "Discontinued Operations" in this MD&A.

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)	Nine Months
2016	(4,891)
2015	11,211

The foreign translation loss in the first nine months of 2016 was due to the strengthening of the Canadian dollar relative to the US dollar. In 2015, 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 September 30, 2016, the Company decreased working capital (current assets less current liabilities) by $8.5 million to $68.3 million compared to $76.8 million as at December 31, 2015. This decrease is primarily the result of a reduction in inventories, an increase in deferred revenue and an increase in accounts payable and accrued liabilities, partially offset by an increase in accounts receivable.

As at September 30, 2016, the Company had cash and cash equivalents of $38.1 million (December 31, 2015 - $40.8 million) and net cash of $38.1 million (December 31, 2015 – net cash of $39.1 million). 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 under this facility is $20.0 million. The operating facility is due on demand and matures on May 31, 2018.

During the quarter the Company fully repaid the remaining balance on the term loan.

Share Capital

During the three and nine months ended September 30, 2016, the company issued 59,895 shares and 338,422 shares respectively on the exercise of stock options (30,500 and 195,869 respectively for the three and nine months ended September 30, 2015). In 2016, no shares were repurchased and cancelled through the Normal Course Issuer Bid ("NCIB"). In the three and nine months ended September 30, 2015, ZCL repurchased and cancelled 446,600 and 530,500 shares respectively through the NCIB.

Cash Flows

	Third Quarter		Nine Months	
($000's)	**2016**	**2015**	**2016**	**2015**
Operating activities	**20,133**	10,051	**21,841**	4,667
Financing activities	**(2,673)**	(4,474)	**(21,549)**	(7,933)
Investing activities	**(516)**	(495)	**(1,347)**	(2,303)
Foreign exchange[(1)]	**280**	949	**(835)**	1,500
Discontinued operations	**615**	289	**(800)**	(710)
	17,839	6,320	**(2,690)**	(4,779)

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

Operating Activities

The cash flows from operating activities reflect the net impact of i) funds from continuing 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 continuing operations totalled $8.7 million and $16.3 million for the three and nine months ended September 30, 2016 respectively, and were comparable to $8.9 million and $15.4 million for the three and nine months ended September 30, 2015.

Changes in non-cash working capital totalled $11.4 million and $5.5 million for the three and nine months ended September 30, 2016, compared to $1.2 million and negative $10.7 million for the three and nine months ended September 30, 2015. The most significant contributor to the difference in changes in non-cash working capital for the quarter was a smaller increase in receivables and a larger increase in accounts payable and accrued liabilities compared to the third quarter a year earlier.

The most significant change in working capital for the nine months ended September 30, 2016 compared to the same period a year earlier related to changes in inventory. For the nine months ended September 30, 2016, inventory decreased by $4.0 million while in the first nine months of 2015, inventory increased by $1.9 million. In addition to a reduction in inventory levels during the first nine months in the year, inventory also decreased due to a reduction in the USD/CAD foreign exchange rate, while during the same period in 2015, the USD/CAD foreign exchange rate increased. Accounts payable also increased over the first nine months of 2016 relative to a decrease in accounts payable in the prior comparable period.

Financing Activities

Cash flows used in financing activities were $2.7 million for the three months ended September 30, 2016 and $4.5 million for the three months ended September 30, 2015. The decrease in 2016 compared to the prior year is due primarily to the cash outlays on NCIB share repurchases in 2015 that did not recur in 2016. Cash flows used in financing activities were $21.5 million for the nine months ended September 30, 2016 and $7.9 million for the comparative period. The increase in cash flows used in financing activities in 2016 is due primarily to a $17.7 million increase in dividends paid compared to a year earlier.

Investing Activities

The cash flows used in investing activities were $0.5 million and $1.3 million for the three and nine months ended September 30, 2016 compared to $0.5 million and $2.3 million for the three and nine months ended September 30, 2015. The primary contributor in each of the periods is the purchase of property, plant and equipment.

Contractual Obligations

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 $1.1 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 September 30, 2016, the performance letters of credit issued totalled $1.0 million.

As at September 30, 2016, ZCL's minimum lease commitments under all non-cancellable operating leases for production facilities, office space and automotive equipment totalled $11.4 million.

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

($000s)	**Operating Leases**
2016	637
2017	2,399
2018	2,005
2019	1,125
2020	948
Thereafter	4,319
Total	11,433

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for $2,000 (2015 - $3,000) for the three months ended September 30, 2016, and $6,000 (2015 - $16,000) for the nine months ended September 30, 2016, 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 September 30, 2016, included $2,000 (December 31, 2015 - $6,000) 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 1.16 in the fourth quarter of 2014 to a high of 1.39 in the fourth quarter of 2015.

For the three months ended	**2016**			**2015**				**2014**
(in thousands of dollars, except per share amounts)	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**	**Dec 31 $**	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**	**Dec 31 $**
Revenue	57,885	44,719	34,917	44,398	55,636	41,469	23,439	41,601
Net income								
Continuing operations	7,741	4,396	2,132	4,774	7,896	3,883	960	4,573
Discontinued operations *(note 1)*	(1,249)	(2,842)	(1,093)	(889)	(2,691)	(483)	(451)	322
Total	6,492	1,554	1,039	3,885	5,205	3,400	509	4,895
Adjusted EBITDA *(note 2)*	12,125	7,387	4,048	7,062	12,172	6,619	2,293	7,084
Basic and diluted earnings per share								
Continuing operations	0.25	0.14	0.07	0.16	0.26	0.13	0.03	0.15
Total	0.21	0.05	0.03	0.13	0.17	0.11	0.02	0.16
Adjusted EBITDA per diluted share *(note 2)*	0.39	0.24	0.13	0.23	0.40	0.22	0.07	0.23
Dividends declared per share	0.08	0.08	0.58	0.05	0.045	0.045	0.045	0.04

Note 1: The discontinued operations are the ZCL Dualam operations which were divested in the third quarter of 2016, due to continued and expected future operating losses.

Note 2: 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 November 2, 2016, there were 30,687,790 common shares and 962,245 share options outstanding. Of the options outstanding, 394,567 are currently exercisable into common shares. In 2016, ZCL repurchased and cancelled nil shares through the Normal Course Issuer Bid ("NCIB"). In the prior period ended November 2, 2015, 530,500 shares were repurchased and cancelled through the NCIB 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 September 30, 2016.

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 nine months ended September 30, 2016. 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 September 30, 2016, was as follows:

(in thousands of US dollars)	$
Foreign operations	27,609
Domestic operations	8,290
Net balance sheet exposure	35,899

Operating exposure for the nine months ended September 30, 2016, was as follows:

(in thousands of US dollars)	$
Sales	91,303
Operating expenses	68,875
Net operating exposure	22,428

The weighted average US to Canadian dollar translation rate was 1.32 for the nine months ended September 30, 2016. The translation rate as at September 30, 2016 was 1.31.

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 nine months ended September 30, 2016, as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	1,235
Net operating exposure of foreign operations	2,755
Change in net income	3,990

Comprehensive income would have changed $3.5 million if the value of the Canadian dollar fluctuated by 20% 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 and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents 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 downstream retail oil and gas 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 September 30, 2016, no 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 $30.4 million as at September 30, 2016 (December 31, 2015 - $24.5 million). On a geographic basis as at September 30, 2016, approximately 15% (December 31, 2015 – 22%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 85% (December 31, 2015 – 78%) was due from US customers.

Payment terms are generally net 30 days. As at September 30, 2016, the percentages of trade accounts receivable were as follows:

	September 30, 2016	**December 31, 2015**
Current	**76%**	51%
Past due 1 to 30 days	**14%**	26%
Past due 31 to 60 days	**7%**	11%
Past due 61 to 90 days	**1%**	6%
Past due greater than 90 days	**2%**	6%
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, 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 "Liquidity and Capital Resources" section of this MD&A.

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, 2015 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 an actuary. The actual costs of claims may vary from those estimates, and the difference may be material.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to 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.

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 Industrial 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.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & 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 September 30, 2016. 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 September 30, 2016 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 September 30, 2016, 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 September 30, 2016, and have concluded that these controls and procedures are being maintained as designed, they recognize 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

This MD&A includes references to and uses measures and terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. The Company uses non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS are useful for providing securities analysts, investors, and other interested parties with additional information to assist them in understanding components of our financial results. This includes a more complete understanding of factors and trends affecting our operating performance. Non-IFRS measures also provide supplemental measures of operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from continuing operations, working capital, net cash and backlog are measures and terms 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 continuing 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 continuing 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 from continuing operations 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 September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Revenue	**57,885**	55,636	**137,521**	**120,544**
Manufacturing and selling costs	**43,389**	41,933	**105,835**	**94,329**
Gross profit	**14,496**	13,703	**31,686**	**26,215**
Gross margin	***25%***	*25%*	***23%***	***22%***

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net income from continuing operations	**7,741**	7,896	**14,269**	12,739
Adjustments:				
Depreciation and amortization	**854**	853	**2,535**	2,456
Finance expense	**77**	100	**222**	246
Income tax expense	**3,397**	3,247	**6,261**	5,324
EBITDA	**12,069**	12,096	**23,287**	20,765
Share-based compensation	**56**	60	**230**	291
Loss (gain) on disposal of assets	-	18	**(5)**	29
Impairment of assets	**-**	-	**46**	-
Adjusted EBITDA	**12,125**	12,174	**23,558**	21,085
Adjusted EBITDA as a % of revenue	***21%***	*22%*	***17%***	*17%*

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Numerator (in thousands of dollars)	**$**	**$**	**$**	**$**
Adjusted EBITDA	**12,125**	12,174	**23,558**	21,085
Denominator (in thousands)	**#**	**#**	**#**	**#**
Weighted average shares outstanding – basic	**30,564**	30,185	**30,458**	30,262
Effect of dilutive securities:				
Stock options	**284**	299	**240**	340
Weighted average shares outstanding - diluted	**30,848**	30,484	**30,698**	30,602
Adjusted EBITDA per diluted share	**0.39**	0.40	**0.77**	0.69

The following table presents the calculation of funds from continuing operations.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net income from continuing operations	**7,741**	7,896	**14,269**	12,739
Add (deduct) items not affecting cash:				
Depreciation and amortization	**854**	853	**2,535**	2,456
Deferred tax expense (recovery)	**93**	70	**(751)**	(127)
Loss (gain) on disposal of assets	**-**	18	**(5)**	29
Loss on impairment of assets	**-**	-	**46**	-
Share-based compensation	**56**	61	**230**	291
Funds from continuing operations	**8,744**	8,898	**16,324**	15,388

The following table presents the calculation of working capital.

	As at		
	Sept 30, 2016	**Dec 31, 2015**	**Sept 30, 2015**
(in thousands of dollars)	**$**	**$**	**$**
Current assets	**100,764**	105,032	103,356
Current liabilities	**32,496**	28,251	32,012
Working capital	**68,268**	76,781	71,344

The following table presents the calculation of net cash.

	As at		
	Sept 30, 2016	**Dec 31, 2015**	**Sept 30, 2015**
(in thousands of dollars)	**$**	**$**	**$**
Cash and cash equivalents	**38,080**	40,770	23,610
Less: Long term debt (including current portion)	**-**	(1,317)	(1,705)
Less: Finance lease (including current portion)	**-**	(358)	(465)
Net cash	**38,080**	39,095	21,440

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, Industrial 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 Industrial 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.