

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, 2017, 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, 2017, and the MD&A and audited consolidated financial statements for the year ended December 31, 2016. 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. EBITDA, adjusted EBITDA, adjusted EBITDA per diluted share and working capital 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 August 3, 2017.

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.

Fuel is the Company's largest segment and serves a relatively mature market. Water & Wastewater and Oil & Gas/Industrial are smaller segments serving emerging business segments. The Company operates using the brand identities of ZCL, Xerxes, and Parabeam.

Fuel Markets

ZCL is the leading provider of Underwriters Laboratories ("UL") and Underwriters Laboratories of Canada ("ULC") listed underground fuel storage tanks for the downstream retail and commercial markets in both Canada and the US. 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 UL and 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 & Wastewater Markets

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 and Wastewater Markets include onsite wastewater treatment and municipal wastewater collection, dry hydrant cisterns and sprinkler systems, rainwater collection and storm water detention and filtration, grease, oil and solids interceptors and decontamination systems, wash down drainage and leachate treatment and potable water storage.

Oil & Gas/Industrial Markets

ZCL also provides products for other market segments including Oil & Gas and Industrial.

Within Industrial Markets, ZCL manufactures and supplies storage tanks, piping and accessories within two 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. Included in Industrial are chemical processing, municipal wastewater treatment, mining, pulp and paper, agriculture, pharmaceutical, food processing market segments.

OVERALL PERFORMANCE & OUTLOOK

ZCL had a very strong second quarter in both revenue and profitability, making up for the slow, weather-impacted first quarter. In the second quarter of 2017, revenue from continuing operations of \$53.3 million was up 19% and earnings per share from continuing operations of \$0.19 were up 36% compared with the same quarter a year earlier. For the first half of 2017, revenue rose 7% and earnings per share from continuing operations rose by 5%.

While backlog is down slightly as at June 30, 2017 our outlook remains positive and we expect continued growth in the second half of the year.

ZCL continues to prepare for the next phase of growth by investing in areas such as sales and marketing, human capital management, information technology, employee safety and hygiene and operational improvements. We believe the investments we are making now will result in increasing levels of profitability as we grow our business in the future.

We are keeping our balance sheet strong, with working capital of \$53.6 million and a cash and cash equivalents ("cash") balance of \$19.7 million. The strength of our balance sheet allows us to maintain flexibility and preserve our ability to take advantage of future profitable growth opportunities that may arise.

Financial Results

Revenue

Revenue from continuing operations for the second quarter ended June 30, 2017 was \$53.3 million, up \$8.6 million or 19% from \$44.7 million earned for the second quarter of 2016. The strong second quarter revenue was driven by a 23% increase in our Fuel revenue compared with the same quarter a year earlier. This increase was assisted by the strong Q1 2017 backlog that resulted from poor weather conditions in the first quarter of 2017 which delayed shipment.

Water & Wastewater revenue was up 8% compared with a year earlier. Oil & Gas/Industrial revenue was up 3% compared to the second quarter of 2016.

Within Oil & Gas, the company serves both midstream and upstream markets. The Company supplies tanks for pipelines (midstream markets) and for oil and gas exploration companies (upstream markets).

Gross Profit

Gross profit from continuing operations for the second quarter ended June 30, 2017 was \$11.9 million, up \$2.4 million or 25% from \$9.5 million a year earlier. Gross margin of 22% was up from 21% of revenue from continuing operations for the second quarter of 2016, with the increase attributable to an increase in revenue over a relatively fixed cost base as well as customer mix changes. These increases were partially offset by material price increases as a result of a disruption in the supply of styrene that occurred early in 2017. Plus, additional expenditures were incurred relative to 2016 with regard to investment in sales and marketing initiatives that are expected to benefit future quarters.

Adjusted EBITDA

Adjusted EBITDA from continuing operations for the second quarter ended June 30, 2017 was \$9.5 million, up \$2.1 million or 28% from \$7.4 million in the second quarter of 2016. Adjusted EBITDA as a percentage of revenue was 18% for 2017, compared to 17% a year earlier.

Net Income from Continuing Operations

Net income from continuing operations for the second quarter ended June 30, 2017 was \$6.0 million, up \$1.6 million or 37%, from \$4.4 million a year earlier.

Earnings per share from continuing operations for the second quarter ended June 30, 2017 were \$0.19, up \$0.05 or 36%, from \$0.14 per share a year earlier.

Net Income

Net income for the second quarter ended June 30, 2017 was \$5.7 million, up \$4.1 million from \$1.6 million a year earlier. Earnings per share for the second quarter of 2017 was \$0.18, compared with \$0.05 per share a year earlier.

Net income from continuing operations was larger than net income because of losses on discontinued operations in the second quarter of both 2017 and 2016.

Cash

As at June 30, 2017, ZCL had a cash balance of \$19.7 million compared to \$43.2 million as at December 31, 2016 and \$20.2 million as at June 30, 2016. The decrease in cash since December 31, 2016, was primarily due to the payment of the \$20.1 million special dividend that occurred in the first quarter of 2017.

The Company attempts to maintain minimum cash and cash equivalents of approximately \$10 million in order to effectively manage its self-insurance obligations and 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 declared a quarterly dividend of \$0.12 per share, the same rate as the prior quarter and a 50% increase over the \$0.08 declared at the same time last year. The dividend will be paid on October 16, 2017, to the shareholders of record as of September 30, 2017.

Backlog

Backlog is defined as the total value of orders that have not yet been included in revenue but which have a contract or purchase order specifying the scope, value and timing of an order.

Backlog by Market

(\$millions)	June 30, 2017	June 30, 2016	% Change
Fuel	45,573	47,958	(5%)
Water & Wastewater	4,806	5,235	(8%)
Oil & Gas/Industrial	1,081	1,843	(41%)
Total	51,460	55,036	(6%)

As of June 30, 2017, backlog was \$51.5 million, down \$3.6 million or 6% from the quarterly backlog record of \$55.0 million a year earlier. We believe the reduction is not an indicator of activity for the rest of the year. We remain confident in continuing to grow revenue in the second half of the year.

In the Fuel Markets, backlog of \$45.6 million was down \$2.4 million or 5% compared to June 30, 2016. After a very strong start to Canadian Fuel Markets order entry in the first quarter of 2017, and a resulting \$1.7 million or 18% increase in revenue for the first half of 2017 compared with a year earlier, the Canadian Fuel Markets backlog was down \$1.4 million compared with the same quarter a year earlier.

In the US, on a source currency basis, the US Fuel backlog was down 5% compared to the same quarter a year earlier. Also within Fuel, International Fuel Market backlog was up \$1.0 million compared to the same quarter in 2016.

Water & Wastewater Markets backlog of \$4.8 million, was down \$0.4 million compared to the quarter ended June 30, 2016 driven by the US Water & Wastewater Markets. Canadian Water & Wastewater Markets was comparable to the same quarter in 2016.

As at June 30, 2017, Oil & Gas/Industrial Market backlog of \$1.1 million was down \$0.8 million from \$1.8 million a year earlier. A \$0.3 million increase in Oil & Gas backlog was more than offset by a decrease in North American Industrial Market backlog.

The total backlog increased by \$0.6 million from \$50.8 million at March 31, 2017. A \$2.7 million increase in Fuel Markets backlog was partially offset by a \$2.0 million decrease in Oil & Gas/Industrial backlog. Water & Wastewater Markets were comparable to a quarter earlier.

As reported in the first quarter of 2017, March 31, 2017 backlog was seasonally higher than normal due to the impact of bad weather. Certain customers delayed shipments during the first quarter of 2017 due to poor winter weather conditions experienced across much of North America. As expected, these weather-related delays contributed to the increase in revenue in the second quarter of 2017 compared with a year earlier.

Capital Allocation

ZCL has developed a consistently profitable and strategically focused business model, and will continue to act in a disciplined and strategic manner when it comes to investing and distributing capital. We are focused on growing shareholder value through a reasonable increase in the quarterly distributions while preserving our balance sheet strength to allow us to act on profitable growth opportunities as they arise.

The key levers of our capital allocation strategy are:

1. Fund all profitable organic growth opportunities that support the objectives of our strategic plan.
2. Continue to evaluate and pursue non-organic growth opportunities.
3. Continue to distribute cash dividends to shareholders.

Outlook

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

On a year-to-date basis, our 2017 revenues are up 7% over the same period of 2016. This is led by our Fuel Markets revenue which is up 9% on a year to date basis. Our Water & Wastewater Markets revenues are up 3% for the same period. We expect continued growth in the second half of 2017. However, we caution that if the strengthening trend of the Canadian dollar against the US dollar in July 2017 continues, it might partially offset anticipated growth in revenue due to the translation of our US operations revenue to Canadian dollars for reporting purposes.

Our outlook for the rest of the year by segment is as follows:

Fuel Markets

The Fuel Markets are our most mature business and our largest revenue segment. On balance, outlook for the remainder of 2017 remains positive and we are confident in achieving our growth objectives for Fuel Markets in 2017. Among other indications, this expectation is based on feedback from our customers across North America. In particular, first half 2017 activity in the Canadian Fuel Markets was at the highest levels we have seen in several years. This high level of activity in Canada was led by sales to independent fuel retailers through our distribution network. In addition, we saw a first half increase in orders from major oil company fuel retailers in Canada after a couple years of slower sales to this group due to capital spending reductions in response to the drop in commodity energy prices.

Industry consolidation in the Fuel Markets at the retail level continues across North America, with Couche-Tard's recently announced acquisition of Holiday Stationstores Inc., a US convenience store chain. We view industry consolidation as a long term positive for ZCL given that consolidators are committed to retail petroleum and typically devote new capital to expand their operations and grow their market share.

Water & Wastewater Markets

Though we have participated in the Water & Wastewater ("W&WW") Markets for several years now, we continue to view W&WW as part of our emerging business with the most potential for significant relative growth in the future. These markets are a fundamental part of our long term growth strategy. Our current early stage position in the

large, but fragmented, W&WW Markets mirrors our now dominant and long presence in the Fuel Markets in an important way. If we look back on the Fuels Markets of 30 years ago, the underground storage tank market share was roughly 90% steel and 10% fiberglass¹. Today, those market shares are reversed. In the W&WW Markets today, concrete products have the dominant market share¹. While we don't expect it will take us 30 years to reverse those market share numbers, as we are confident that fiberglass holds attractive features and benefits that support continued market share gains against concrete, we are in a similar position of competing against a strong and entrenched incumbent. We expect fiberglass to gain market share against concrete in the W&WW Markets in addition to benefiting from the overall growth of these markets. Market growth will be driven by the increasing awareness of water as the next scarce commodity which will drive investment in systems that conserve, recycle, and reuse water resources.

In early 2017, with the objective to focus on our emerging W&WW Markets, we launched a number of initiatives aimed at improving the effectiveness of our go-to-market strategy and increasing our market share. This included the restructuring of the W&WW sales group, culminating with the addition in early July of a seasoned executive to lead this team. While it will take some time for the new leader to have a material impact on returning this segment to its historical growth rates, he brings a broad portfolio of experience in the W&WW Markets, including a long tenure in water process technologies with a Fortune 100 company. We believe that this greater level of focus, combined with current market intelligence indicating that spending on W&WW related projects is again on the uptick, will enable us to meet our future growth objectives in these markets.

Oil & Gas/Industrial Markets

The Oil and Gas and Industrial Markets, which comprise of approximately 5% to 10% of our total revenues, continue to lag in the face of reduced spending in the Oil Sands of Western Canada.

¹ Estimates based on management's knowledge of the industry.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating Results				
Revenue	53,306	44,719	85,047	79,635
Gross profit	11,901	9,523	18,007	17,191
<i>Gross margin</i>	22%	21%	21%	22%
General and administration	2,515	2,290	5,271	5,286
Foreign exchange (gain) loss	(1)	(62)	232	644
Depreciation and amortization	783	836	1,604	1,682
Finance expense	34	71	76	145
Loss (gain) on disposal of property, plant and equipment	87	(5)	71	(5)
Loss on impairment of property, plant and equipment	-	46	-	46
Income tax expense	2,452	1,951	3,803	2,864
Net income from continuing operations	6,031	4,396	6,950	6,529
Net loss from discontinued operations	(374)	(2,842)	(411)	(3,937)
Net income	5,657	1,554	6,539	2,592
Earnings per share from continuing operations				
Basic	0.19	0.15	0.22	0.21
Diluted	0.19	0.14	0.22	0.21
Earnings per share				
Basic	0.18	0.05	0.21	0.09
Diluted	0.18	0.05	0.21	0.08
Cash dividends declared per common share	0.12	0.08	0.89	0.66
Adjusted EBITDA (note 1)	9,467	7,387	12,638	11,435
<i>Adjusted EBITDA as % of revenue</i>	18%	17%	15%	14%
<i>Adjusted EBITDA per diluted share</i>	0.30	0.24	0.41	0.37
	As at			
	June 30, 2017	Dec 31, 2016	June 30, 2016	
(in thousands of dollars)	\$	\$	\$	
Financial Position				
Cash and cash equivalents	19,655	43,208	20,241	
Working capital (note 1)	53,565	73,737	60,268	
Total assets	146,797	163,928	152,770	
Total non-current liabilities	4,223	4,088	4,183	
<i>Note 1: Adjusted EBITDA, adjusted EBITDA per diluted share and working capital are non-IFRS measures and are defined later in the MD&A under "Non-IFRS Measures."</i>				

RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2017
Revenue

(\$000s)	Second Quarter		
	2017	2016	% change
Revenue by Market:			
Fuel	42,975	34,978	23%
Water & Wastewater	6,688	6,213	8%
Oil & Gas/Industrial	3,643	3,528	3%
	53,306	44,719	19%

Revenue for the quarter ended June 30, 2017 was \$53.3 million, up \$8.6 million, or 19% from \$44.7 million in the second quarter of 2016. The change in revenue reflects the factors noted below:

Fuel

Fuel revenue of \$43.0 million, was up \$8.0 million or 23%, from \$35.0 million in the quarter ended June 30, 2016. The increase in Fuel revenue compared to a year earlier was attributable to both Canadian and US markets. As expected, second quarter 2017 Fuel revenue benefited from the delivery of certain orders that normally would have shipped in the first quarter 2017, but were delayed as a result of poor weather across North America.

Canadian Fuel revenue in the second quarter of 2017 was up \$2.8 million or 75% compared to the same quarter of 2016, with the increase primarily driven from higher sales to distributors which were up \$2.6 million over the second quarter of 2016. Sales to major oil customers were up \$0.9 million compared to the same quarter in 2016. These increases were partially offset by decreased sales to retail petroleum marketers compared with a year earlier.

In the US, revenue was up \$1.5 million or 7% over the second quarter of 2016 prior to a \$1.8 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. The increase in US Fuel revenue resulted from increased sales to retail petroleum marketers, which were up \$1.2 million or 8% compared to the same quarter a year earlier. Sales to US distributors were up by 4% compared to June 30, 2016.

Fuel Markets also include revenue from International operations which were up \$1.8 million or 149% compared to the second quarter of 2016. The increase primarily related to higher Parabeam® 3-D fabric sales to licensees.

Water & Wastewater

Water & Wastewater revenue in the second quarter of 2017 was \$6.7 million, up \$0.5 million or 8% compared to \$6.2 million in the second quarter of 2016. The increase in revenue was attributable to the US markets which were up \$0.4 million or 11% over the second quarter of 2016 prior to a \$0.4 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. In Canada, revenue was down \$0.3 million compared with a year earlier.

Oil & Gas / Industrial

Oil & Gas/Industrial revenue of \$3.6 million for the second quarter of 2017 was comparable to \$3.5 million a year earlier. A \$1.1 million increase in Oil & Gas revenue in the second quarter of 2017 was mostly offset by a \$1.0 million decrease in Industrial Markets revenue compared to the second quarter of 2016.

Gross Profit

(\$000s)	Second Quarter		
	2017	2016	% change
Gross profit	11,901	9,523	25%
Gross margin	22%	21%	

In the second quarter of 2017, gross profit of \$11.9 million was up \$2.4 million or 25% compared to the same quarter in 2016. Gross margin also increased to 22% from 21% in 2016.

The gross profit and gross margin increase relative to 2016 were attributable to an increase in revenue over a relatively fixed cost base as well as customer mix changes. However, these increases were partially offset by material price increases as a result of a disruption in the supply of styrene that occurred early in 2017. Plus, additional expenditures were incurred relative to 2016 with regard to investment in sales and marketing initiatives that are expected to benefit future quarters.

General and Administration

(\$000s)	Second Quarter
2017	2,515
2016	2,290
% change	10%

General and administration ("G&A") expense for the quarter ended June 30, 2017 was up \$0.2 million or 10% compared to the quarter ended June 30, 2016 due to increased professional fees compared with a year earlier.

Foreign Exchange Gain

(\$000s)	Second Quarter
2017	(1)
2016	(62)

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

Second Quarter	2017		2016		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
USD	1.35	1.30	1.29	1.30	4%	nil
euro	1.48	1.48	1.46	1.44	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)	Second Quarter
2017	783
2016	836
% change	(6%)

Depreciation and amortization expense for the quarter ended June 30, 2017 was down 6% compared to a year earlier.

Income Taxes

Income tax expense for the three months ended June 30, 2017, represented 29% of pre-tax income, compared to 31% of pre-tax income in 2016. The decrease 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 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 Loss

Comprehensive loss 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 (loss) before the impact of net income.

(\$000s)	Second Quarter
2017	(2,061)
2016	(210)

The foreign translation loss in 2017 and 2016 was due to the weakening of the US dollar relative to the Canadian dollar. In the second quarter of 2017, the US dollar weakened from 1.37 to 1.29 and therefore generated a loss on the translation of foreign operations.

FOR THE SIX MONTHS ENDED JUNE 30, 2017
Revenue

(\$000s)	Six Months		
	2017	2016	% change
Revenue by Market:			
Fuel	69,888	64,096	9%
Water & Wastewater	10,889	10,611	3%
Oil & Gas/Industrial	4,270	4,928	(13%)
	85,047	79,635	7%

Revenue for the six months ended June 30, 2017 was \$85.0 million, up \$5.4 million, or 7% from \$79.6 million in the first six months of 2016. The change in revenue reflects the factors noted below:

Fuel

Fuel revenue of \$69.9 million in the first six months of 2017, was up \$5.8 million or 9%, from \$64.1 million for the same period a year earlier. The increase in Fuel revenue compared to a year earlier was attributable to both Canadian and US markets.

Canadian Fuel revenue in the first six months of 2017 was up \$1.7 million or 18% compared to the first half of 2016, with the increase derived from distributor sales which were up \$3.2 million compared to a year earlier. This increase was partially offset by lower sales to retail petroleum marketers and major oil customers.

In the US, revenue was up \$1.3 million or 3% over the first half of 2016 prior to a \$1.0 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. The increase in US Fuel revenue resulted from increased sales to distributors which were up 6% over the first half of 2016. Sales to retail petroleum marketers was comparable to a year earlier.

Fuel Markets also includes revenue from International operations which were up \$1.9 million or 84% compared to the first half of 2016. The increase primarily related to higher Parabeam® 3-D fabric sales to licensees.

Water & Wastewater

Water & Wastewater revenue in the first six months of 2017 was \$10.9 million, up \$0.3 million or 3% compared to \$10.6 million in the first six months of 2016. The increase in revenue was attributable to the US markets which were up \$0.5 million or 8% over the first half of 2016 prior to a \$0.3 million positive impact on the translation of US dollar sales to Canadian dollars for reporting purposes. In Canada, revenue was down \$0.5 million compared to a year earlier.

Oil & Gas / Industrial

Oil & Gas/Industrial revenue of \$4.3 million for the first six months of 2017 was down \$0.7 million or 13% compared to \$4.9 million a year earlier. A \$0.8 million increase in Oil & Gas revenue in the first six months of 2017 was more than offset by a \$1.4 million decrease in Industrial Markets revenue compared to the first six months of 2016.

Gross Profit

(\$000s)	Six Months		
	2017	2016	% change
Gross profit	18,007	17,191	5%
Gross margin	21%	22%	

In the first six months of 2017, gross profit of \$18.0 million was up \$0.8 million or 5% compared to the same period in 2016. Gross margin decreased to 21% from 22% in 2016.

The gross profit increase relative to the first half of 2016 was attributable an increase in revenue over a relatively fixed cost base as well as customer mix changes. However, these increases were partially offset by material price increases as a result of a disruption in the supply of styrene that occurred early in 2017, impacting gross margin compared with a year earlier. In addition, additional expenditures were incurred relative to 2016 with regard to investment in sales and marketing initiatives that are expected to benefit future quarters.

Manufacturing expenditures also increased in the first half of 2017 compared to same period in 2016 as additional expenditures were made regarding employee safety and hygiene throughout the Company.

General and Administration

(\$000s)	Six Months
2017	5,271
2016	5,286
% change	nil

General and administration ("G&A") expense for the six months ended June 30, 2017 was comparable to the first six months of 2016.

Foreign Exchange Loss

(\$000s)	Six Months
2017	232
2016	644

The foreign exchange 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	2017		2016		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
USD	1.33	1.30	1.33	1.30	nil	nil
euro	1.45	1.48	1.49	1.44	(3%)	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)	Six Months
2017	1,604
2016	1,682
% change	(5%)

Depreciation and amortization expense for the first half of 2017 was down \$0.1 million compared to the first half of 2016.

Income Taxes

Income tax expense for the six months ended June 30, 2017, represented 35% of pre-tax income, compared to 30.5% of pre-tax income in 2016. The increase in 2017 relative to the first six months of 2016, is primarily due to a withholding tax payment that occurred in the first quarter of 2017, on cash repatriations from the Company's US subsidiaries that were used to fund the special dividend. Excluding this withholding tax expense, the effective tax rate for the first six months of 2017 would have been 29%, down from 2016 due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Disposal of Assets and Discontinued Operations

During 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 Loss

Comprehensive loss 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 (loss) before the impact of net income.

(\$000s)	Six Months
2017	(2,803)
2016	(6,382)

The foreign translation loss in the first half of 2017 and 2016 was due to the strengthening of the Canadian dollar relative to the US dollar.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at June 30, 2017, the Company decreased working capital (current assets less current liabilities) by \$20.2 million to \$53.6 million compared to \$73.7 million as at December 31, 2016. This decrease is primarily the result of the special dividend paid during the first quarter of 2017 of \$20.1 million, thereby reducing cash and cash equivalents.

As at June 30, 2017, the Company had cash and cash equivalents of \$19.7 million (December 31, 2016 - \$43.2 million).

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.

The Company fully repaid the remaining balance on the term loan during the third quarter of 2016.

Share Capital

During the three and six months ended June 30, 2017, the Company issued 66,484 shares and 270,106 shares respectively on the exercise of stock options (74,930 and 278,527 respectively for the three and six months ended June 30, 2016). In 2016 and 2017, no shares were repurchased and cancelled through the Normal Course Issuer Bid ("NCIB").

Cash Flows

(\$000's)	Second Quarter		Six Months	
	2017	2016	2017	2016
Operating activities	(879)	636	3,461	1,711
Financing activities	(3,325)	(2,605)	(24,491)	(18,876)
Investing activities	(916)	(641)	(1,651)	(831)
Foreign exchange ⁽¹⁾	103	(138)	(389)	(1,118)
Discontinued operations	(446)	(328)	(483)	(1,415)
	(5,463)	(3,076)	(23,553)	(20,529)

(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 and ii) changes in non-cash working capital.

Funds from continuing operations totalled \$7.3 million and \$8.6 million for the three and six months ended June 30, 2017 respectively, up from \$4.8 million and \$7.6 million for the three and six months ended June 30, 2016.

Changes in non-cash working capital totalled negative \$8.2 million and negative \$5.1 million for the three and six months ended June 30, 2017, compared to negative \$4.2 million and negative \$5.9 million for the three and six months ended June 30, 2016. For the three months ended June 30, 2017, the accounts receivable grew more than in the comparable period, driving the reduction in cash from working capital changes. This increase in accounts receivable was partially offset by an increase in accounts payable and accrued liabilities relative to the three months ended June 30, 2016.

The overall changes in non-cash working capital for the six months ended June 30, 2017 were comparable with the changes from the same period in 2016.

Financing Activities

Cash flows used in financing activities were \$3.3 million for the three months ended June 30, 2017 and \$2.6 million for the three months ended June 30, 2016. The increase in 2017 compared to the prior year is due primarily to the increase in the quarterly dividend payment by \$1.3 million, partially offset by second quarter 2016 debt repayments of \$0.4 million that were not incurred in 2017 due to the full repayment of the debt in 2016. Cash flows used in financing activities were \$24.5 million for the six months ended June 30, 2017 and \$18.9 million for the comparative period. The increase in cash flows used in financing activities in 2017 is due to the increase in quarterly and special dividends compared to a year earlier, partially offset by the repayment of debt in 2016.

In March, 2017, the Company received approval from the TSX to conduct a Normal Course Issuer Bid ("NCIB") that commenced on March 31, 2017. The Company is authorized to purchase up to 1,500,000 common shares for cancellation. Management believes that from time to time the market prices of the common shares may not reflect their underlying value and at such times, the purchase of common shares for cancellation will increase the proportionate interest of, and be advantageous to, all remaining shareholders. No common shares were repurchased through the NCIB during the first six months of 2017 or 2016.

Investing Activities

The cash flows used in investing activities were \$0.9 million and \$1.7 million for the three and six months ended June 30, 2017 compared to \$0.6 million and \$0.8 million for the three and six months ended June 30, 2016. 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 \$1.4 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, 2017, the performance letters of credit issued were less than \$0.1 million.

As at June 30, 2017, ZCL's minimum lease commitments under all non-cancellable operating leases for production facilities, office space and automotive equipment totalled \$12.2 million.

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

(\$000s)	Operating Leases
2017	1,311
2018	2,219
2019	1,775
2020	1,607
2021	1,622
Thereafter	3,633
Total	12,167

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for \$68,000 (2016 - \$3,000) for the three months and \$73,000 (2016 - \$4,000) for the six months ended June 30, 2017, included in manufacturing and selling costs or inventories, were provided by a corporation whose Executive Chairman was a director of the Company until May 4, 2017. 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, 2017 included \$nil (December 31, 2016 - \$nil) 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 1.30 in the first and second quarter of 2016 and second quarter of 2017 to a high of 1.39 in the fourth quarter of 2015.

For the three months ended <i>(in thousands of dollars, except per share amounts)</i>	2017		2016				2015	
	June 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$	Jun 30 \$	Mar 31 \$	Dec 31 \$	Sep 30 \$
Revenue by Market:								
Fuel	42,975	26,913	39,030	49,664	34,978	29,118	34,501	46,278
Water & Wastewater	6,688	4,202	6,433	5,902	6,213	4,398	6,758	6,794
Oil & Gas/Industrial	3,643	626	1,139	2,319	3,528	1,400	3,139	2,564
Total revenue	53,306	31,741	46,602	57,885	44,719	34,916	44,398	55,636
Net income								
Continuing operations	6,031	919	5,749	7,741	4,396	2,132	4,774	7,896
Discontinued operations <i>(note 1)</i>	(374)	(37)	146	(1,249)	(2,842)	(1,094)	(889)	(2,691)
Total net income	5,657	882	5,895	6,492	1,554	1,038	3,885	5,205
Adjusted EBITDA <i>(note 2)</i>	9,467	3,172	9,418	12,125	7,387	4,048	7,062	12,172
Basic and diluted earnings per share								
Continuing operations	0.19	0.03	0.19	0.25	0.14	0.07	0.16	0.26
Total	0.18	0.03	0.19	0.21	0.05	0.03	0.13	0.17
Adjusted EBITDA per diluted share <i>(note 2)</i>	0.30	0.10	0.30	0.39	0.24	0.13	0.23	0.40
Dividends declared per share	0.12	0.77	0.08	0.08	0.08	0.58	0.05	0.045

Note 1: The discontinued operations are the ZCL Dualam operations which were exited 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 August 3, 2017, there were 31,047,528 common shares and 827,207 share options outstanding. Of the options outstanding, 310,176 are currently exercisable into common shares. In 2016 and 2017, ZCL repurchased and cancelled nil shares through the Normal Course Issuer Bid ("NCIB").

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange 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, 2017.

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 three months ended June 30, 2017. 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, 2017, was as follows:

(in thousands of US dollars)	\$
Foreign operations	14,212
Domestic operations	7,983
Net balance sheet exposure	22,195

Operating exposure for the six months ended June 30, 2017, was as follows:

(in thousands of US dollars)	\$
Sales	51,275
Operating expenses	42,068
Net operating exposure	9,207

The weighted average US to Canadian dollar translation rate was 1.33 for the six months ended June 30, 2017. The translation rate as at June 30, 2017 was 1.30.

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, 2017, as follows:

(in thousands of US dollars)	\$
Net balance sheet exposure of domestic operations	1,189
Net operating exposure of foreign operations	1,110
Change in net income	2,299

Comprehensive income would have changed \$1.8 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 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 & 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 June 30, 2017, 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 \$28.4 million as at June 30, 2017 (December 31, 2016 - \$25.0 million). On a geographic basis as at June 30, 2017, approximately 19% (December 31, 2016 – 16%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 81% (December 31, 2016 – 84%) was due from US customers.

Payment terms are generally net 30 days. As at June 30, 2017, the percentages of trade accounts receivable were as follows:

	June 30, 2017	December 31, 2016
Aged 0 to 30 days	72%	50%
Aged 31 to 60 days	16%	26%
Aged 61 to 90 days	8%	13%
Aged 91 to 120 days	2%	9%
Aged greater than 120 days	2%	2%
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 their shares. The Company is not permitted to sell or re-pledge significant assets held under collateral without consent from the lenders.

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 Fuel, Water and Wastewater, Oil & Gas, and Industrial markets; drilling activity and oil and natural gas prices, environmental trends 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, 2016 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 independent 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 Preserver program. Effective January 31, 2015, the Company ceased offering the Canadian Preserver 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 Preserver 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 Preserver 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.

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 June 30, 2017. 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, 2017 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, 2017, 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, 2017, 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. Included in non-IFRS measures is adjusted EBITDA, adjusted EBITDA per diluted share and working capital. The Company uses non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS measures 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.

Tables calculating or reconciling these non-IFRS measures, where applicable, have been included on the next page.

Adjusted EBITDA is defined as income from continuing operations before finance expense, income taxes, depreciation of property, plant and equipment, amortization of intangible assets, share-based compensation, gains or losses on sale of assets, and impairment of assets.

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

Readers are cautioned that adjusted EBITDA and adjusted EBITDA per diluted share should not be construed as an alternative to net income and net income per diluted share as determined in accordance with IFRS. The Company discloses adjusted EBITDA and adjusted EBITDA per diluted share as management considers that these measures provide additional clarity of the Corporation's operational performance to the readers of the MD&A. These adjustments to EBITDA include, among other things, non-cash gains and losses on disposal of assets, non-cash impairment charges and non-cash share-based compensation. The exclusion of these items does not indicate that they are non-recurring; management considers them to be non-operational. By removing non-operational items, readers of the MD&A will have a more complete understanding of factors and trends affecting ZCL's operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

Working capital is defined as current assets less current liabilities. The Company discloses working capital in order to provide users of the MD&A a measure of the Company's liquidity and ability to pay current liabilities.

RECONCILIATION OF NON-IFRS MEASURES

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
(in thousands of dollars)	\$	\$	\$	\$
Net income from continuing operations	6,031	4,396	6,950	6,529
Adjustments:				
Depreciation and amortization	783	836	1,604	1,682
Finance expense	34	71	76	145
Income tax expense	2,452	1,951	3,803	2,864
Share-based compensation	80	92	134	174
Loss (gain) on disposal of property, plant and equipment	87	(5)	71	(5)
Loss on impairment of property, plant and equipment	-	46	-	46
Adjusted EBITDA	9,467	7,387	12,638	11,435
<i>Adjusted EBITDA as a % of revenue</i>	18%	17%	15%	14%

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Numerator (in thousands of dollars)	\$	\$	\$	\$
Adjusted EBITDA	9,467	7,387	12,638	11,435
Denominator (in thousands)	#	#	#	#
Weighted average shares outstanding – basic	31,008	30,506	30,913	30,405
Effect of dilutive securities:				
Stock options	254	226	240	185
Weighted average shares outstanding - diluted	31,262	30,732	31,153	30,590
Adjusted EBITDA per diluted share	0.30	0.24	0.41	0.37

The following table presents the calculation of working capital.

	As at		
	June 30, 2017	December 31, 2016	June 30, 2016
(in thousands of dollars)	\$	\$	\$
Current assets	83,927	99,482	86,951
Current liabilities	30,362	25,745	26,683
Working capital	53,565	73,737	60,268

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 Fuel, Water & Wastewater, Industrial, Oil & Gas and International markets, efforts to reduce administrative and production costs, manage production levels, anticipated capital expenditure trends, activity in the fuel 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 Fuel, Water & Wastewater, Oil & Gas, and Industrial 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.