



ZCL Composites Inc. Reports Third Fiscal Quarter Results

For Immediate Release

Edmonton, Alberta February 6, 2006... ZCL Composites Inc. (TSX:ZCL) today announced results for the third quarter ended December 31, 2005. Revenue for the third quarter increased by 18.0% to a record \$13.0 million from \$11.1 million for the same quarter last year. Net income for the third quarter increased to \$1,065,000 from \$1,028,000 last year. Basic earnings per share for the third quarter were \$0.06 as compared to \$0.06 last year, and diluted earnings per share for the third quarter were \$0.05 as compared to \$0.05 last year.

For the nine month period, revenue increased by 14.5% to \$32.5 million from \$28.4 million last year. Net income for the nine month period decreased 8.6% to \$2.1 million from \$2.3 million last year. Basic earnings per share were \$0.12 for the nine month period as compared to \$0.13 for the same period last year and diluted earnings per share were \$0.11 for the nine month period as compared to \$0.12 last year.

The overall increase in revenue was primarily due to the acquisition of Triple M Fiberglass Mfg. Ltd. ("Triple M") in April 2005, and to the increasing demand for our products used in the Oil and Gas market sold from our Western Canada premises. The outlook for this market sector, as well as other traditional markets of the Company, remains very positive for the remainder of this fiscal year. The order backlog is very strong and the fourth quarter is off to a good start.

Notwithstanding the higher revenue during the period, the decrease in the year to date net income was largely due to lower overall margins as a result of increased raw material prices. We also incurred increased expenses for marketing and sales activities related to home heating oil and tank lining products. Financing costs were higher this year primarily due to the acquisition of Triple M, the acquisition of patents, and the acquisition of capital expenditures. Amortization decreased this year as certain deferred costs were fully amortized in the third quarter last year.

Cash flows from operating activities were \$588,000 during the third quarter (\$1,381,000 for the nine month period) this year, after the payment of income taxes of \$315,000 in the quarter (\$1,892,000 in the nine month period), compared to \$3,639,000 of cash generated in operating activities during the quarter (\$2,909,000 for the nine month period) last year. This quarter over quarter decrease was largely due to the timing of sales and collection of accounts receivable, the timing of the payment of accounts payable and the level of operations. With respect to financing and investing activity, the payment of the Triple M acquisition during the first quarter and the purchase of patent and manufacturing rights in the third quarter were an additional use of funds. The shares of Triple M, including bank indebtedness assumed, were acquired for cash of \$2.6 million in the first quarter this year, and the business assets of Durex Steel & Alloy Industries Ltd. ("Durex") were purchased for cash of \$1.2 million in the first quarter last year.

The Company purchased all of the application patents as well as the exclusive rights for manufacturing the three dimensional fabric marketed as "Parabeam". The purchase of these patents provides the Company with control over the Parabeam product. This action further solidifies the Company's growth strategies in the North American and Global marketplaces.

Tank lining development costs of \$104,000 (2004 - \$210,000) during the third quarter and \$677,000 (2004 - \$442,000) in the nine month period were deferred. Actual expenditures in the third quarter were \$263,000 but

were offset by \$159,000 for investment tax credits received under the federal government's Scientific Research and Experimental Development program. While the overall level of development costs has exceeded the initial estimated amount, the development program is progressing as planned and the second quarter field test of the lining product was completed in the third quarter. Evaluation and testing with respect to obtaining Underwriters' Laboratories of Canada ("ULC") and Underwriters' Laboratories ("UL") listings in accordance with recognized industry standards was successfully completed in the third quarter and we are awaiting formal approval. Lining systems will be introduced to the marketplace in a deliberate and measured manner and the lining program will be ramped up as field experience is gained and qualified applicators are trained in all aspects of this new system. This new product is expected to add to revenue in the early part of fiscal 2007.

In the current environment where many companies acknowledge the challenge of recruiting and retaining high quality people, we are pleased to announce that once again we have re-qualified and are one of the winners of the nationally acclaimed competition known as "Canada's 50 Best Managed Companies" which recognizes innovative thinking, product and service excellence and commitment to people. The 50 Best Managed program is a national competition that recognizes Canadian companies that employ business best practices. The program was created in 1993 and recognizes companies operating at the highest levels of business performance. The 50 Best Managed designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.

"We remain committed to our strategy of profitable growth and are on target to meet our annual growth objective," said Ven Côté, President and CEO who went on to say: "With our expanding order backlog and the strong start to the fourth quarter, we remain confident that we can achieve our growth objective of 15% to 20% in terms of revenue with increasing margins in future quarters. Price increases announced in late November will have a greater impact on the margins beginning with the fourth quarter of this year."

ZCL Composites Inc. trades on the Toronto Stock Exchange under the symbol "ZCL" and is Canada's largest manufacturer of composite liquid storage systems. ZCL's complete fuel storage systems marketed under the "Prezerver" trademark carry a \$2 million warranty against pollution.

The unaudited consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles. Certain information in this news release may constitute forward-looking statements that are based on current expectations and are subject to risks and uncertainties. Many internal and external factors may cause actual results to differ materially from those expressed or implied. The Company disclaims any intention or obligation to update or revise any such forward-looking statements, whether as a result of new information, future events, or otherwise.

For further information, please contact:

Venence G. Côté
President & CEO
ZCL Composites Inc.
(780) 466-6648
Ven.Cote@zcl.com

Bernie A. Lafferty
VP Finance & CFO
ZCL Composites Inc.
(780) 466-6648
Bernie.Lafferty@ZCL.com

(tables follow)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | December 31 2005 | March 31 2005 |
|---|------------------------|------------------|
| (in thousands of dollars) | \$ | \$ |
| Assets | | |
| Current | | |
| Cash | -- | 1,383 |
| Accounts receivable | 11,392 | 11,294 |
| Inventories | 8,751 | 7,120 |
| Prepaid expenses | 373 | 548 |
| Future tax assets | 184 | 250 |
| | 20,700 | 20,595 |
| Property, plant and equipment | 9,834 | 8,246 |
| Deferred costs (note 3) | 1,370 | 707 |
| Intangible assets (note 3) | 1,181 | 1,085 |
| Goodwill | 1,991 | 1,991 |
| | 35,076 | 32,624 |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Bank indebtedness (note 4) | 2,776 | -- |
| Accounts payable and accrued liabilities | 5,244 | 6,337 |
| Income taxes payable | 261 | 1,336 |
| Future tax liabilities | 274 | 24 |
| | 8,555 | 7,697 |
| Government grants | 145 | 151 |
| Future tax liabilities | 1,589 | 947 |
| | 10,289 | 8,795 |
| Shareholders' equity | | |
| Share capital (note 5a) | 19,405 | 19,277 |
| Contributed surplus (note 5a) | 310 | 171 |
| Retained earnings | 5,072 | 4,381 |
| | 24,787 | 23,829 |
| | 35,076 | 32,624 |

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

| Periods ended December 31 | Three months | | Nine months | |
|---|---------------|--------|----------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| (in thousands of dollars, except per share amounts) | \$ | \$ | \$ | \$ |
| Revenue | 13,044 | 11,056 | 32,505 | 28,384 |
| Manufacturing and selling costs (notes 6a and 7) | 10,302 | 8,500 | 26,231 | 21,935 |
| | 2,742 | 2,556 | 6,274 | 6,449 |
| Amortization (note 3) | 379 | 481 | 1,111 | 1,426 |
| General and administration (note 6a) | 655 | 484 | 1,608 | 1,407 |
| Financing charges (note 8) | 56 | 12 | 219 | 55 |
| Income before income taxes | 1,652 | 1,579 | 3,336 | 3,561 |
| Income taxes | | | | |
| Current | 602 | 551 | 817 | 902 |
| Future | (15) | -- | 390 | 330 |
| | 587 | 551 | 1,207 | 1,232 |
| Net income for the period | 1,065 | 1,028 | 2,129 | 2,329 |
| Retained earnings, beginning of the period | 4,007 | 2,202 | 4,381 | 1,952 |
| Dividends (note 5b) | -- | -- | (1,438) | (1,051) |
| Retained earnings, end of the period | 5,072 | 3,230 | 5,072 | 3,230 |
| Basic earnings per share (note 9) | \$0.06 | \$0.06 | \$0.12 | \$0.13 |
| Diluted earnings per share (note 9) | \$0.05 | \$0.05 | \$0.11 | \$0.12 |

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| Periods ended December 31 | Three months | | Nine months | |
|--|--------------|---------|-------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| (in thousands of dollars) | \$ | \$ | \$ | \$ |
| Cash Flows from Operating Activities | | | | |
| Cash receipts from customers | 11,341 | 12,458 | 33,567 | 27,375 |
| | | | | (24,423) |
| Cash paid to suppliers and employees | (10,377) | (8,824) | (30,084) | |
| Interest paid | (61) | (19) | (210) | (55) |
| Income taxes paid | (315) | 24 | (1,892) | 12 |
| | 588 | 3,639 | 1,381 | 2,909 |
| Cash Flows from Financing Activities | | | | |
| Net advances on bank indebtedness (note 4) | (67) | (1,328) | 2,777 | -- |
| Issue of common shares (note 5a) | 74 | 76 | 128 | 302 |
| Dividends (note 5b) | -- | -- | (1,438) | (1,051) |
| | 7 | (1,252) | 1,467 | (749) |
| Cash Flows from Investing Activities | | | | |
| Business acquisition, including bank indebtedness assumed (note 2) | -- | -- | (2,597) | (1,193) |
| Purchase of property, plant and equipment | (122) | (48) | (588) | (276) |
| Intangible assets (note 3) | (369) | -- | (369) | -- |
| Deferred development costs (note 3) | (104) | (210) | (677) | (442) |
| | (595) | (258) | (4,231) | (1,911) |
| Increase (decrease) in cash | -- | 2,129 | (1,383) | 249 |
| Cash, beginning of the period | -- | -- | 1,383 | 1,880 |
| Cash, end of the period | -- | 2,129 | -- | 2,129 |

See accompanying notes