



ZCL Composites Inc. Reports First Fiscal Quarter Results

For Immediate Release

Edmonton, Alberta August 4, 2006... ZCL Composites Inc. (TSX:ZCL) today announced results for the first quarter ended June 30, 2006. Revenue for the first quarter increased by 51.5% to a record \$12.6 million from \$8.3 million for the same quarter last year. Net income for the first quarter increased to \$957,000 from \$244,000 last year. Basic and fully diluted earnings per share for the first quarter were \$0.05 and \$0.04 respectively as compared to \$0.01 last year for both basic and fully diluted earnings per share.

The Company changed its year end from March 31 to December 31 to coincide with companies involved in the oil and gas industry. This fiscal period end will therefore be for the nine months ending December 31, 2006. Appropriate comparisons and reconciliations will be provided in order to easily evaluate our financial performance during the upcoming transition periods.

The continued strong level of activity in the downstream and upstream sectors of the petroleum industry, as well as other market sectors, contributed to the increased revenue. All areas of operations experienced significant increases in revenue while fixed costs remained relatively unchanged from the same quarter last year. The outlook for these market sectors remains very positive for this fiscal period as the backlog at the end of the first quarter is very strong. The second quarter is also off to a strong start. Inventories have been maintained at higher levels to meet orders and deliveries.

Cash flow from operating activities during the first quarter this period was \$2,148,000, compared to \$437,000 last year. This increase was largely due to the timing of sales and collection of accounts receivable and the higher level of operations. A dividend of \$0.10 (2005 – \$0.08) per common share was declared in the first quarter this period and dividends of \$2.1 million (2005 - \$1.4 million) are to be paid in the second quarter.

With respect to financing and investing activity, \$767,000 was received on the exercise of certain options and warrants during the first quarter. Bank indebtedness of \$114,000 was repaid and \$387,000 was invested in property, plant and equipment. The shares of Triple M, including bank indebtedness assumed, were acquired for cash of \$2.6 million in the first quarter last year.

The Company continues to focus on the marketing of home heating oil tanks and the final testing and marketing of its tank lining technologies. Sales and profitability levels for home heating oil tanks continue to be weaker than planned.

The Company is awaiting Underwriters' Laboratories of Canada ("ULC") and the Underwriters' Laboratories ("UL") formal approval for the new tank lining product before introducing commercial sales of this product. As the program is now fully developed, there are no additional development costs to be deferred. Lining systems will be cautiously introduced to the marketplace 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.

“We are very pleased with the strong start to our new fiscal period. As anticipated, the price increases introduced late last year and during the first quarter this period have strengthened our margins.” said Ven Côté, President and CEO who went on to say: “With the strong backlog, improved margins and the anticipated introduction into the lining market very soon, we are very excited about the revenue and profit growth opportunities for the remainder of the fiscal period.”

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.

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(tables follow)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30	March 31
	2006	2006
(in thousands of dollars)	\$	\$
Assets		
Current assets		
Cash	2,414	-
Accounts receivable	10,408	12,654
Inventories	10,962	9,422
Prepaid expenses	441	310
Future tax assets	48	48
	24,273	22,434
Property, plant and equipment	10,037	9,901
Deferred costs	1,160	1,165
Intangible assets	938	1,066
Goodwill	1,991	1,991
	38,399	36,557
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	-	114
Accounts payable and accrued liabilities	5,674	5,699
Income taxes payable	680	447
Dividends payable	2,081	-
Future tax liabilities	256	256
	8,691	6,516
Government grants	141	143
Future tax liabilities	1,356	1,467
	10,188	8,126
Shareholders' equity		
Share capital	22,193	21,397
Contributed surplus	456	348
Retained earnings	5,562	6,686
	28,211	28,431
	38,399	36,557

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

Three months ended June 30	2006	2005
(in thousands of dollars, except per share amounts)	\$	\$
Revenue	12,552	8,287
Manufacturing and selling costs	10,025	6,979
	2,527	1,308
Amortization	382	363
General and administration	767	462
Financing (income) charges	(8)	69
Income before income taxes	1,386	414
Income taxes		
Current	540	100
Future	(111)	70
	429	170
Net income for the period	957	244
Retained earnings, beginning of the period	6,686	4,381
Dividends	(2,081)	(1,438)
Retained earnings, end of the period	5,562	3,187
Basic earnings per share	\$0.05	\$0.01
Diluted earnings per share	\$0.04	\$0.01

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three months ended June 30	2006	2005
(in thousands of dollars)	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	957	244
Add (subtract) non-cash items:		
Amortization expense	382	363
Future tax (recovery) expense	(111)	70
Stock-based compensation expense	137	35
Changes in non-cash working capital:		
Decrease in accounts receivable	2,246	4,691
Increase in inventories	(1,540)	(1,922)
Decrease (increase) in prepaid expenses	(131)	241
Decrease in accounts payable and accrued liabilities	(25)	(2,184)
Increase (decrease) in income taxes payable	233	(1,101)
Cash flows from operating activities	2,148	437
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares	767	44
Net (repayment) advances of bank indebtedness	(114)	1,200
Cash flows from financing activities	653	1,244
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisition, including bank indebtedness assumed	-	(2,597)
Purchase of property, plant and equipment	(387)	(289)
Deferred development costs	-	(178)
Cash flows used in investing activities	(387)	(3,064)
Increase (decrease) in cash	2,414	(1,383)
Cash, beginning of the period	-	1,383
Cash, end of the period	2,414	-
