



ZCL Composites Inc. Reports Second Quarter Results Earnings Increase by 96%

For Immediate Release

Edmonton, Alberta October 31, 2006... ZCL Composites Inc. (TSX:ZCL) today announced results for the second quarter ended September 30, 2006. Revenue for the second quarter increased by 25.1% to a record \$14.0 million from \$11.2 million for the same quarter last year. Revenue increased 36.3% to \$26.5 million for the six-month period from \$19.5 million for the six-month period last year. Net income for the second quarter increased 96.5% to \$1.6 million from \$820,000 last year. Net income increased 141.4% to \$2.6 million for the six-month period from \$1.1 million last year. Basic and fully diluted earnings per share for the second quarter were \$0.08 and \$0.07 respectively as compared to \$0.05 and \$0.04 last year. Year to date, basic and fully diluted earnings per share were \$0.12 and \$0.12 for the six month period this year and \$0.06 and \$0.05 for the same period last year.

As mentioned in previous releases, 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.

Selling prices were adjusted during the first two quarters this year to offset the higher raw material costs incurred last year. Higher revenues coupled with improved margins resulted in the significantly higher net income. The outlook for all market sectors remains very positive for this fiscal period as the backlog at the end of the second quarter remains strong. The third quarter is also off to a very good start.

On August 25, 2006, the Company was notified of the formal listing by Underwriters Laboratories in the United States ("UL") of the *Phoenix System*® and Underwriters Laboratories of Canada ("ULC") of the *LIFELINER System*™ in accordance with recognized industry standards. These listings pave the way to market additional UL / ULC listed products that will begin to add to our revenues before year end as originally communicated and represents another milestone in the continued growth of ZCL.

In October, the Company was awarded a contract by Chevron Hong Kong Limited (Caltex) to install the *LIFELINER System*™ for a number of single wall tanks at two test site locations. The successful completion of these sites will lead to an opportunity for multiple locations throughout Southeast Asia. The Company also received an order from Shell Canada to upgrade a number of sites in Ontario.

With the significant demand placed on the Company's Edmonton, underground fibreglass tank manufacturing facilities, the Company is planning to expand its current facility. It is anticipated that a larger manufacturing facility will not only alleviate the backlog for product, but will also improve the manufacturing throughput by as much as 50%.

During the quarter, the Company was pleased to pay its third annual dividend of \$0.10 per common share that was declared in the first quarter. This dividend, which was an increase of \$0.02 per share or 25% over last year's dividend, was set by your Board of Directors with consideration of our strong results, cash flow and financial position, and the anticipated cash required to continue our strategic growth plan.

“We are very encouraged by the significant growth of our operations during the first two quarters of this year.” said Ven Côté, President and CEO who went on to say: “We are looking forward to continued growth not only in our traditional markets but also with new products and markets, particularly with the lining program that offers such a win-win situation for both our customers and our shareholders. Our sales and backlog remain strong and our balance sheet and cash flow continue to be very healthy. We are in an exceptional position to take advantage of new market opportunities through organic growth and acquisitions that build value for our shareholders.”

ZCL Composites Inc. trades on the Toronto Stock Exchange under the symbol “ZCL” and is Canada's largest manufacturer of composite liquid storage systems.

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)

	September 30 2006	March 31 2006
(in thousands of dollars)	\$	\$
Assets		
Current assets		
Cash	1,188	-
Accounts receivable	12,094	12,654
Inventories	11,609	9,422
Prepaid expenses	328	310
Future tax assets	48	48
	25,267	22,434
Property, plant and equipment	10,157	9,901
Deferred costs	1,129	1,165
Intangible assets	815	1,066
Goodwill	1,991	1,991
	39,359	36,557
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	-	114
Accounts payable and accrued liabilities	6,171	5,699
Income taxes payable	1,249	447
Future tax liabilities	256	256
	7,676	6,516
Government grants	138	143
Future tax liabilities	1,310	1,467
	9,124	8,126
Shareholders' equity		
Share capital	22,606	21,397
Contributed surplus	456	348
Retained earnings	7,173	6,686
	30,235	28,431
	39,359	36,557

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

Periods ended September 30 (in thousands of dollars, except per share amounts)	Three months		Six months	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue	13,974	11,173	26,526	19,460
Manufacturing and selling costs	10,433	8,949	20,458	15,928
	3,541	2,224	6,068	3,532
Amortization	413	370	795	733
General and administration	675	490	1,442	952
Financing charges	11	94	3	163
Income before income taxes	2,442	1,270	3,828	1,684
Income taxes				
Current	877	115	1,417	215
Future	(46)	335	(157)	405
	831	450	1,260	620
Net income for the period	1,611	820	2,568	1,064
Retained earnings, beginning of the period	5,562	3,187	6,686	4,381
Dividends	-	-	(2,081)	(1,438)
Retained earnings, end of the period	7,173	4,007	7,173	4,007
Basic earnings per share	\$0.08	\$0.05	\$0.12	\$0.06
Diluted earnings per share	\$0.07	\$0.04	\$0.12	\$0.05

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Periods ended September 30 (in thousands of dollars)	Three months		Six months	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	1,611	820	2,568	1,064
Add (subtract) non-cash items:				
Amortization expense	413	370	795	733
Future tax (recovery) expense	(46)	335	(157)	405
Stock-based compensation expense	56	51	193	86
	2,034	1,576	3,399	2,288
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable	(1,686)	(1,981)	560	2,710
Decrease (increase) in inventories	(647)	476	(2,187)	(1,446)
Decrease (increase) in prepaid expenses	113	64	(18)	305
Increase (decrease) in accounts payable and accrued liabilities	497	466	472	(1,718)
Increase (decrease) in income taxes payable	569	(245)	802	(1,346)
Cash flows from operating activities	880	356	3,028	793
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of common shares	357	10	1,124	54
Dividends paid	(2,081)	(1,438)	(2,081)	(1,438)
Net (repayment) advances of bank indebtedness	-	1,643	(114)	2,843
Cash flows from (used in) financing activities	(1,724)	215	(1,071)	1,459
CASH FLOWS FROM INVESTING ACTIVITIES				
Business acquisition, including bank indebtedness assumed	-	-	-	(2,597)
Purchase of property, plant and equipment	(382)	(177)	(769)	(466)
Deferred development costs	-	(394)	-	(572)
Cash flows used in investing activities	(382)	(571)	(769)	(3,635)
Increase (decrease) in cash	(1,226)	-	1,188	(1,383)
Cash, beginning of the period	2,414	-	-	1,383
Cash, end of the period	1,188	-	1,188	-