ZCL
COMPOSITES INC.

First Quarter Report 2004

Message to Shareholders

In our 2003 Annual Report, we highlighted that our clear objective for this fiscal year is to execute our business plan designed to generate profitable growth and deliver returns for our shareholders. We are pleased to report strong operating and financial results to begin the year. These results reflect the steps taken in the past to secure our core business, maintain our innovative industry leadership, and position the Company for profitable growth. Traditionally, the first and fourth fiscal quarters have the lowest levels of activity.

Revenue increased by 47% to a record first fiscal quarter of $7.2 million. Net income for the quarter was $236,000, or $0.01 per share, as compared to a loss of $93,000, or $0.03 per share, last year. Convertible subordinated debenture costs of $216,000 were deducted in the calculation of the loss per share in the first quarter of last year, and with the repayment of the debenture, these costs were not incurred this year. This strong performance was the result of improved activity in our traditional industry sectors, revenue from new products, as well as the acquisitions of Mocoat Services Incorporated ("Mocoat") and Parabeam Industries BV ("Parabeam"). Activity picked up in the downstream and upstream sectors of the petroleum industry in the latter part of last fiscal year, and carried into the first quarter of this year.

The integration of Mocoat and Parabeam into our overall liquid storage business has been completed, and these operations contributed to the increased revenue. Products introduced in recent years, such as the domestic heating oil tank and Protektor and Pinnacle oilfield tanks, are gaining market acceptance and also adding to our revenue and income.

Our growth target will be achieved through both internal expansion and acquisitions. We are positioned for growth through new products, as well as continued strength in our traditional markets. Our current focus is the development and marketing of our tank lining technologies, and our team is working with suppliers and testing new lining materials and processes that will provide superior quality and performance, along with inherently safe installation techniques. Other new products have been identified and are in progress for industrial and consumer applications, such as water and sewage treatment, and chemical and other hazardous liquid storage.

With continued growth in revenue and income, coupled with an improved investor communication program, we look forward to better performance in the price of our shares. Our notice of intention to make a normal course issuer bid to purchase up to 5% of the outstanding common shares was recently accepted by the Toronto Stock Exchange, and we have commenced purchases. We believe that our share price does not reflect the current value of your Company, and that this program is in the best interests of all shareholders.

The first quarter was a good start to our fiscal 2004 year. With the support of our dedicated customers, employees, and shareholders, we will continue to deliver quality products to our customers and create value for our shareholders.

Venence G. Côté
President & Chief Executive Officer

Tony G. Barlott
Vice President Finance & Chief Financial Officer

August 11, 2003

Management's Discussion and Analysis

This discussion and analysis should be read in conjunction with the Company's March 31, 2003 audited annual consolidated financial statements and related notes, as well as Management's Discussion and Analysis contained in the 2003 Annual Report and the Message to Shareholders included in this First Quarter Report.

Operating Results

The Company used the same accounting policies and methods as in the March 31, 2003 audited annual consolidated financial statements. The consolidated statements of income and deficit and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations. Historically, the first and fourth quarters have the lowest levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada.

Net income (loss)

Net income for the first quarter was $236,000 as compared to a net loss of $93,000 in the first quarter last year. The basic and diluted earnings per share for the quarter were $0.01 as compared to a loss of $0.03 per share last year. In the first quarter of last year, convertible subordinated debenture ("debenture") costs of $216,000, net of tax, were deducted in the calculation of the loss per share. With the repayment of the debenture in September 2002, these costs were not incurred this year.

Stock options and warrants are not included in the calculation of diluted shares as their exercise prices exceeded the average market share price for the periods. The debenture was not included in the calculation of diluted shares in 2002 as the market share price was below the threshold conversion price of $3.00.

Revenue

Revenue in the first quarter increased by 47% to $7.2 million, from $4.9 million last year. The increase was due to improved activity in many industry sectors, revenue from new products, as well as the acquisitions of Mocoat Services Incorporated ("Mocoat") and Parabeam Industries BV ("Parabeam"). Activity picked up in the downstream and upstream sectors of the petroleum industry in the latter part of last year, and carried into the first quarter of this year.

Products introduced in recent years - domestic heating oil tanks, Protektor and Pinnacle oilfield tanks, filament wound pressure vessels, as well as custom storage and lining systems – continue to gain market acceptance and contribute to revenue.

Revenue less manufacturing and selling costs

Revenue less manufacturing and selling costs increased to $1.4 million (20.0% of revenue) from $848,000 (17.3% of revenue) in the first quarter last year. This increase is due to the increase in revenue. Overall manufacturing margins have been maintained at similar levels as last year, and efforts to further improve production processes and reduce costs are ongoing. While the integration of Mocoat and Parabeam into the overall liquid storage business has been completed, the development and marketing of the tank lining technologies continues.

Amortization

Amortization increased to $504,000 for the quarter from $437,000 last year. The increase is due to the amortization of assets from the acquisitions of Mocoat and Parabeam.

General and administration

General and administration expenses increased to $435,000 for the quarter this year from $408,000 last year. These costs have generally been maintained at the same levels as last year.

Financing charges

Financing charges for the quarter increased to $114,000 for the quarter from $103,000 last year. The increase is due to the higher level of long-term bank debt. However, the corresponding significantly higher costs of the debenture have been eliminated.

Income taxes

The Company's tax rate is approximately the same as last year, and overall income taxes are affected by non-deductible expenses, the large corporations tax and withholding taxes on royalties from ZCL Enviro Systems, Inc. ("Enviro"). Future income taxes relate primarily to the utilization of losses of prior years for tax purposes, and differences between financial reporting and tax bases of assets and liabilities.

Financial Position and Liquidity

Working capital increased to $9.3 million at June 30, 2003 from $8.7 million at March 31, 2003. Cash was $1.6 million at June 30, 2003, as compared to cash of $1.3 million March 31, 2003. These increases were the result of the profitable operations during the period. Due to the timing of cash receipts and payments during the first quarter, cash of $545,000 was provided by operating activities this year, and $1.4 million last year.

Accounts receivable decreased to $5.8 million at June 30, 2003 from $6.1 million at March 31, 2003. The Company deals largely with major oil and gas companies in Canada. No one customer generally makes up more than 10% of annual revenue, but at a particular point in time, depending on the timing of sales, there may be higher proportionate exposure in accounts receivable. At June 30, 2003, one customer accounted for 10% (March 31, 2003 - 17%) of accounts receivable.

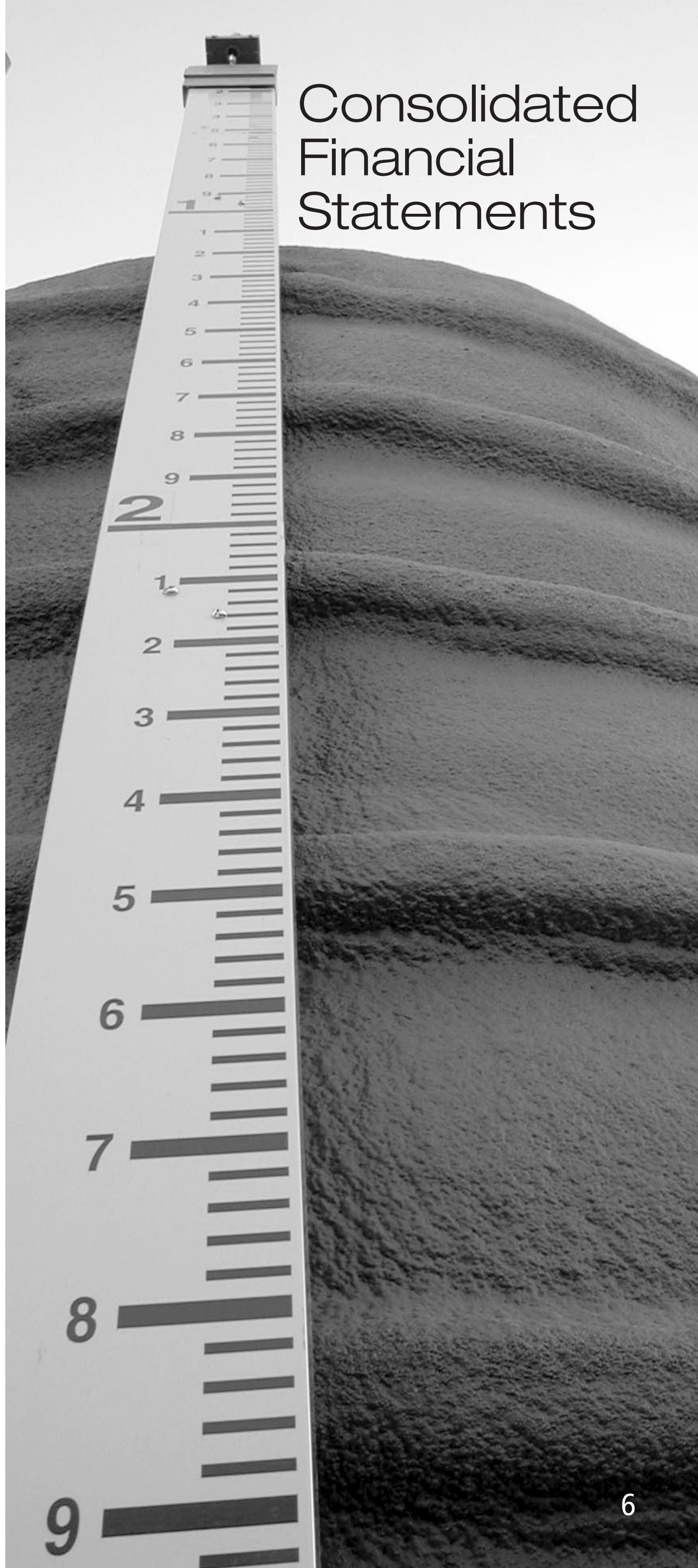
Inventories increased to $5.7 million at June 30, 2003 from $5.4 million at March 31, 2003. This is a normal seasonal build-up to meet the higher levels of activity in the second fiscal quarter. Due to the timing of purchases and payments, accounts payable and accrued liabilities decreased to $3.6 million at June 30, 2003 from $3.9 million at March 31, 2003.

Enviro continues to take steps to improve its manufacturing operations. Payments of $59,000 were made under the agreement receivable in the fourth quarter of last year, but no further amounts were collected during the first quarter ($168,000 collected in the first quarter last year). Final repayment terms have not been renegotiated, and the remaining amount of the agreement is classified as long term.

Shareholders' equity increased to $19.3 million, as a result of net income for the quarter. A special resolution is proposed for the Annual General and Special Meeting of shareholders on August 18, 2003 to eliminate the deficit at March 31, 2003 by reducing contributed surplus by $745,000 and share capital by $8.3 million.

The Toronto Stock Exchange ("TSX") has accepted notice of intention filed by the Company to make a normal course issuer bid ("NCIB"). During the twelve-month period commencing July 10, 2003 and ending July 9, 2004, the Company may purchase on the TSX up to a maximum of 885,846 common shares, being approximately 5% of the issued and outstanding common shares. The price for any such shares will be the market price and all shares purchased will be cancelled. The actual number of shares and the timing of any purchases will be determined by the Company. The Company believes that its common shares have been trading at a price range which does not adequately reflect their value in relation to the assets, business and future prospects. Depending on future trading prices and other factors, the acquisition of outstanding common shares in connection with the NCIB may represent a desirable use of a portion of available funds.

Consolidated Financial Statements



Consolidated Balance Sheets

(Unaudited)

(in thousands of dollars)	June 30 2003 $	March 31 2003 $
Assets		
Current		
Cash	**1,557**	1,333
Accounts receivable	**5,793**	6,104
Inventories	**5,664**	5,379
Prepaid expenses	**253**	115
Future tax assets	**421**	421
	13,688	13,352
Agreement receivable *(note 2)*	**880**	880
Capital assets	**7,935**	7,981
Deferred costs	**1,344**	1,579
Intangible assets	**1,642**	1,748
Goodwill	**1,926**	1,926
Future tax assets	**399**	548
	27,814	28,014
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**3,621**	3,870
Income taxes payable	**80**	82
Current portion of long-term debt	**714**	714
Future tax liabilities	**17**	17
	4,432	4,683
Long-term debt	**3,750**	3,929
Government grants	**167**	169
Future tax liabilities	**149**	153
	8,498	8,934
Shareholders' equity		
Share capital	**27,378**	27,378
Contributed surplus	**745**	745
Deficit	**(8,807)**	(9,043)
	19,316	19,080
	27,814	28,014

See accompanying notes

Consolidated Statements of Income and Deficit

(Unaudited)

Three months ended June 30

(in thousands of dollars, except per share amounts)	**2003** **$**	**2002** **$**
Revenue	**7,211**	4,901
Manufacturing and selling costs	**5,772**	4,053
	1,439	848
Amortization	**504**	437
General and administration	**435**	408
Operating income	**500**	3
Financing charges	**114**	103
Income (loss) before income taxes	**386**	(100)
Income taxes		
Current	**5**	8
Future	**145**	(15)
	150	(7)
Net income (loss) for the period	**236**	(93)
Deficit, beginning of the period	**(9,043)**	(8,976)
Convertible subordinated debenture costs, net of tax		(216)
Deficit, end of the period	**(8,807)**	(9,285)
Basic and diluted earnings (loss) per share *(note 4)*	**$0.01**	($0.03)

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

Three months ended June 30

(in thousands of dollars)	2003 $	2002 $
Cash Flows from Operating Activities		
Cash receipts from customers	**7,576**	6,327
Cash paid to suppliers and employees	**(6,997)**	(4,831)
Interest paid	**(27)**	(99)
Income taxes paid	**(7)**	(6)
	545	1,391
Cash Flows from Financing Activities		
Loans from directors		550
Repayment of long-term debt	**(179)**	(183)
Repayment of convertible subordinated debenture		(200)
Convertible subordinated debenture costs		(140)
	(179)	27
Cash Flows from Investing Activities		
Collection of agreement receivable *(note 2)*		168
Business acquisition, including bank indebtedness assumed		(413)
Purchase of capital assets	**(142)**	(141)
Product development costs deferred		(4)
	(142)	(390)
Increase in cash	**224**	1,028
Cash, beginning of the period	**1,333**	191
Cash, end of the period	**1,557**	1,219

See accompanying notes

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2003 and 2002

1. Financial Statement Presentation and Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those used in the preparation of the most recent annual consolidated financial statements. These unaudited interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended March 31, 2003. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such interim financial information.

The consolidated statements of income and deficit and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations. Historically, the first and fourth quarters of the Company's fiscal year have the lowest levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada.

2. Agreement Receivable

Management is negotiating alternative terms for the collection of the agreement receivable from ZCL Enviro Systems, Inc. ("Enviro"), a corporation incorporated under the laws of the Philippines. Final repayment terms have not been agreed, and accordingly, the remaining amount of the agreement is classified as long term. As collateral for the agreement receivable, the Company is entitled to the return of its 40% interest in Enviro.

Management is of the opinion that the amounts owing, plus interest at market rates, will be collected in full, and accordingly, the fair value approximates the carrying value. There is credit risk associated with the collection of these amounts. Due to the measurement uncertainty relating to the agreement receivable, it may be necessary to write-down the amount should management subsequently determine that collection is not reasonably assured. Such a write-down may have a material effect on the net income of the Company.

3. Stock-Based Compensation

The fair value of stock options and warrants are determined, at the date of grant, using the Black-Scholes option pricing model. The following table provides the required pro-forma measures of net income (loss) and earnings (loss) per share had compensation expense been recognized based on the fair value, as at the date of the grant, of the options and warrants granted to employees after April 1, 2002, in accordance with the fair value method of accounting for stock-based compensation:

Three months ended June 30: (in thousands of dollars, except earnings per share)	**2003** **$**	**2002** **$**
Net income (loss) for the period	**236**	(93)
Compensation expense	**56**	
Pro-forma net income (loss) for the period	**180**	(93)
Earnings (loss) per share:		
Reported basic and diluted earnings (loss) per share	**0.01**	(0.03)
Compensation expense per share	**0.00**	
Pro-forma basic and diluted earnings (loss) per share	**0.01**	(0.03)

The estimated fair value of these options and warrants was determined using the following weighted-average assumptions, resulting in a weighted-average fair value of $0.37 per option and $0.36 per warrant:

Risk-free interest rate (%)	4.02
Expected hold period to exercise (years)	options 4.0 / warrants 4.9
Volatility in the price of the Company's shares (%)	options 61.6 / warrants 56.6
Dividend yield (%)	0.0

4. Earnings (Loss) Per Share

Reconciliations for purposes of the determination of the basic and diluted per share computations are as follows:

Three months ended June 30: (in thousands of dollars)	**2003** **$**	**2002** **$**
Net income (loss) for the period	**236**	(93)
Convertible subordinated debenture costs, net of tax		(216)
Net income available (loss attributable) to common shareholders	**236**	(309)
	#	**#**
Weighted average number of shares outstanding - basic and diluted	**17,716,920**	9,905,256
Shares outstanding, end of period	**17,716,920**	10,204,956

Share options and warrants are not included in the calculation of diluted shares as their exercise prices exceed the average market share price for the years.

The convertible subordinated debenture is not included in the calculation of diluted shares in 2002 as the market share price was below the threshold conversion price of $3.00.

5. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current period.