

Making A Difference

ZCL Composites Inc.
First Quarter Report
Fiscal Period Ending December 31, 2006



ZCL
COMPOSITES INC.

Message To Shareholders

I am pleased to announce revenue for the first quarter increased by 51.5% to a record \$12.6 million from \$8.3 million for the first quarter last year. With our expanding order backlog and the strong start to the second quarter, we remain confident that we can achieve our target of annual revenue growth of 15% to 20% coupled with a corresponding increase in earnings.

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.

As a result of our strong performance for March 31, 2006 fiscal year, we declared our third annual dividend of \$0.10 (2005 – \$0.08) per common share during the first quarter this fiscal period. The dividends of \$2.1 million (2005 - \$1.4 million) will be paid in the second quarter. This dividend increase represents the confidence the board and management have in the current and ongoing strength of our operations.

We were able to increase our selling prices late in the previous fiscal year and during the first quarter of this fiscal period to offset the substantial increases in our raw material prices received last year. As a result, our margins have improved over prior periods. The increased sales combined with our increased margins, were the primary reasons for the profit improvement over the first quarter of last year.

The lining program proceeded as planned as we completed the field tests and successfully completed the evaluation and testing with respect to obtaining Underwriters' Laboratories of Canada ("ULC") and Underwriters' Laboratories ("UL") listings in accordance with recognized industry standards. We are now awaiting the formal approval from UL and ULC. We anticipate that this new product will start to contribute to our revenue in the latter part of our current fiscal period.

We changed our year end from March 31 to December 31 to coincide with companies involved in the oil and gas industry. Our next fiscal period 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 transition period.

The Home Heating Oil Tanks operation did not generate the level of sales or profit we expected in the first quarter. However, we are confident that we will see improvement in this area during the second quarter and over the remaining part of the fiscal period.

Continuing into this new fiscal period ending December 31, 2006, we are inline with our strategy of profitable growth and are on target to achieving this goal. Our vision remains unchanged: to be the leading global provider of environmentally friendly liquid storage solutions, while providing superior returns to our shareholders. We will do so by maintaining our position in our traditional markets within the Canadian marketplace, and by pursuing growth opportunities in related products and markets and most of all with the ongoing support of our dedicated customers, employees and shareholders. Our organization is well positioned to take advantage of our strengthened core business. We are looking to the future with confidence and by remaining focused, we will meet our commitments and continue to create value for our shareholders.



Venence G. Côté
President and Chief Executive Officer

August 3, 2006

Management's Discussion and Analysis

August 3, 2006

The following discussion and analysis of the results of operations and cash flows for the period ended June 30, 2006, and the financial position as at June 30, 2006, should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the period ended June 30, 2006, the Management's Discussion and Analysis and audited consolidated financial statements and related notes for the year ended March 31, 2006, as well as the Message to Shareholders included in this First Quarter Report.

This discussion includes 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, including, but not limited to, those outlined in Risks and Uncertainties in the Management's Discussion and Analysis for the year ended March 31, 2006. 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.

OVERALL PERFORMANCE

The Company used the same accounting policies and methods for the period ended June 30, 2006 as used in the audited annual consolidated financial statements for the year ended March 31, 2006. The consolidated statements of income and retained earnings and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations.

Revenue increased by 51.5% to a record first quarter \$12.6 million from \$8.3 million last year. Net income for the quarter increased to \$957,000 from \$244,000 in 2005. Basic and diluted earnings per share were \$0.05 and \$0.04, respectively, as compared to \$0.01 for both basic and fully diluted earnings per share for the same quarter last year.

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 norms than historical levels to meet orders and deliveries.

The increase in net income in the first quarter was largely due to higher revenue and positive contribution from all areas of operation with the exception of the Home Heating Oil Tank division that continues to experience a slower growth trajectory. Overall margins have increased as the price increases introduced at the end of last year and during the first quarter have taken effect. Financing charges were lower in the quarter this fiscal period due to decreased utilization of the bank operating lines of credit.

Cash flow from operating activities during the first quarter this fiscal 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 fiscal period and dividends of \$2.1 million (2005 - \$1.4 million) are to be paid in the second quarter.

The effect of dilutive share options and warrants on the weighted-average shares outstanding was 1,374,065 shares (2005 – 2,259,443) for the quarter. The final third of the outstanding warrants vested during the first quarter as a result of the final performance threshold being met. In the first quarter last year, the remaining unvested warrants were not included in the calculation of diluted shares as the market price was below the performance threshold.

In December 2004, a portion of the Company's manufacturing plant in Waverley, Nova Scotia was destroyed in an electrical fire. This facility is used largely to produce home heating oil tank products. All damaged property, equipment and inventories have been repaired or replaced. It is anticipated that insurance proceeds from the Company's insurers (subject to a \$25,000 deductible under the insurance policy) will cover all damages. Accounts receivable at June 30, 2006 included \$204,000 (March 31, 2006 - \$305,000) related to the insurance claim. Manufacturing has resumed and the plant has been fully restored. The Company has held discussions with our insurers and have been told this balance will be paid shortly.

The Company continues to focus on the marketing of home heating oil tanks and the final testing and marketing of its tank lining system. 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 before introducing commercial sales of the tank lining system. As the program is now fully developed, there are no additional development costs to be

Management's Discussion and Analysis continued

deferred. Last fiscal year, there were \$475,000 of costs deferred. Total development costs deferred related to The Tank Lining System are \$1.1 million which will be amortized over an appropriate period once commercial sales begin. 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.

The Company changed its fiscal period from March 31 to December 31 to coincide with companies involved in the Oil and Gas industry. This fiscal period 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 transition period.

SEGMENTED ACTIVITY

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

The Company operates in two reportable segments namely Liquid Containment Storage Systems (including fiberglass underground and aboveground storage tanks and related products and accessories) and Home Heating Oil Tanks. In addition to the above noted operating segments, corporate administration and other operating segments reported to the CEO are included in the All Other reportable segment. Revenue for the All Other reportable segment is primarily from the Company's operations in The Netherlands which manufactures and sells a three-dimensional fabric material. Segmented information is shown on these product lines in Note 12 which highlights Liquid Containment Storage Systems, Home Heating Oil Tanks and All Other segments combined.

Sales recorded in the Liquid Containment Storage Systems segment were \$11.6 million (2005 - \$7.5 million) generating income before income taxes of \$2.4 million (2005 - \$1.2 million).

Sales recorded in the Home Heating Oil segment were \$552,000 (2005 - \$334,000) generating a loss before income taxes of \$272,000 (2005 - \$193,000).

Corporate administration and other operating segments reported to the Chief Executive Officer are included in the All Other reportable segment. Revenue for All Other is derived from the sale of finished three-dimensional fabric materials from the Company's operations in the Netherlands.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005

Revenue

Revenue in the first quarter increased by 51.5% to \$12.6 million from \$8.3 million last year. The increase in revenue was primarily due to the continued strong level of activity in the downstream and upstream sectors of the petroleum industry, as well as other market sectors.

Revenue less manufacturing and selling costs

Revenue less manufacturing and selling costs increased to \$2.5 million (20.1% of revenue) from \$1.3 million (15.8% of revenue) in the first quarter last year. Manufacturing and selling costs include direct materials and labour, variable and fixed manufacturing overhead, and marketing and selling expenses, and exclude amortization, general and administration, and financing charges.

Overall margins have increased as a result of the price increases introduced late last year and in the first quarter of this fiscal period. Manufacturing overhead and marketing and selling expenses have increased, however, at a lower rate than the sales increase.

Amortization

Amortization increased by \$19,000, to \$382,000 for the first quarter from \$363,000 last year. The overall level of amortization has increased due to the purchase of new equipment over the past fiscal year.

General and administration

General and administration expenses were \$767,000 or 6.1% of revenue for the first quarter as compared to \$462,000 or 5.6% of revenue last year. These costs have increased from last year as a result of the significant quarter over quarter growth, certain cost increases including a larger quarterly accrual for bonuses paid annually, and higher stock based compensation expenses. Resources and processes have been put in place relating to the requirements of current corporate governance developments.

Financing (income) charges

Financing income for the first quarter was \$8,000, as compared to charges of \$69,000 last year. The improvement is the result of the lower utilization of the operating lines of credit (bank indebtedness), and foreign exchange gains related to the translation of transactions denominated in foreign currencies and the accounts of the Company's operations in the Netherlands.

Income taxes

The Company's overall effective tax rate was 31.0% in the first quarter as compared to 41.1% last year. The federal and certain provincial governments have recently announced a number of changes to income taxes and rates. As these changes have received royal assent and were therefore substantively enacted during the first quarter, the Company has made an adjustment to reduce income tax expense by approximately \$92,600 for the quarter. The resulting future tax liabilities reflect the lower anticipated taxes that will be paid as the temporary income tax differences reverse in future years. Excluding the impact of this adjustment, the effective tax rate for the three month period was 37.1%.

The higher effective rate last year was due to non-deductible expenses that were not significant but had a larger effect last year because of the lower level of pre-tax income.

All tax losses of prior years were utilized in fiscal 2006. Future tax liabilities largely represent the carrying value of assets in excess of their tax bases.

SUMMARY OF QUARTERLY RESULTS

The following selected information for the eight most recent quarters should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and accompanying notes.

Quarterly Unaudited Results

(in thousands of dollars, except per share amounts)

	June 30/06	Mar 31/06	Dec 31/05	Sept 30/05
Revenue	12,552	13,662	13,044	11,173
Net income	957	1,295	1,065	820
Basic earnings per share	\$0.05	\$0.07	\$0.06	\$0.05
Diluted earnings per share	\$0.04	\$0.06	\$0.05	\$0.04

	June 30/05	Mar 31/05	Dec 31/04	Sept 30/04
Revenue	8,287	10,372	11,056	11,020
Net income	244	1,151	1,028	1,229
Basic earnings per share	\$0.01	\$0.07	\$0.06	\$0.07
Diluted earnings per share	\$0.01	\$0.06	\$0.05	\$0.07

Historically, the first and fourth fiscal quarters generally have the lower levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada. However, as the Company has expanded its product lines into new markets that have different seasonality or that are less influenced by the effect of weather in the timing of installation, the seasonality impact has been diminished.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (current assets less current liabilities) at June 30, 2006 was \$15.6 million, as compared to \$15.9 million at March 31, 2006. Current assets increased by \$1.8 million and current liabilities increased by \$2.2 million. These changes largely reflect the increase in cash and inventory offset with a decrease in accounts receivable and the declaration of the dividends represented as dividends payable at June 30, 2006.

At June 30, 2006, cash increased to \$2.4 million from a bank indebtedness position of \$114,000 at March 31, 2006, accounts receivable decreased by \$2.2 million from March 31, 2006 to \$10.4 million, inventories increased by \$1.5 million to \$11.0 million, accounts payable and accrued liabilities decreased by \$25,000 to \$5.7 million, dividends payable increased to \$2.1 million, and income taxes payable increased by \$233,000 to \$680,000. These increases reflect

Management's Discussion and Analysis continued

the elevated level of operations and the declaration of dividends during the quarter. Inventories have been maintained at higher levels to meet the continued robust activity anticipated in the second quarter of this fiscal period.

No one customer generally makes up more than 10% of 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, 2006, one customer accounted for approximately 8% (March 31, 2006 – two customers, 23%) of accounts receivable.

Cash Flows

Summary of Cash Flows Three months ended June 30 (in thousands of dollars)	2006 \$	2005 \$
Operating activities	2,148	437
Financing activities	653	1,244
Investing activities	(387)	(3,064)
Decrease in cash	2,414	(1,383)
Cash, beginning of the period	—	1,383
Cash, end of the period	2,414	—

Cash flows from operating activities during the first quarter this fiscal period were \$2,148,000 compared to \$437,000 of cash from operating activities for the quarter last year. This increase was largely due to the timing of sales and collection of accounts receivable and the increased level of operations.

As a result of the increase in cash during the period, net repayment on the revolving operating lines of credit (bank indebtedness) was \$114,000 (2005 – \$1.2 million in net advances) during the first quarter. The Company has operating lines of credit of \$10.25 million provided by a chartered bank.

Property, plant and equipment additions in the first quarter were \$387,000 (2005 – \$289,000); these additions related largely to the purchase of equipment for tank lining and to increase production capacity and efficiency, and the upgrade of computer and other office equipment.

Contractual Obligations

The Company's contractual obligations remains as described in Note 8 to the audited March 31, 2006 consolidated financial statements.

TRANSACTIONS WITH RELATED PARTIES

The related party transactions are described in note 7 to the unaudited consolidated financial statements for the period ended June 30, 2006. There are no ongoing contractual or other commitments resulting from these transactions.

OUTLOOK

The Company's outlook remains as described in the Management's Discussion and Analysis included in the March 31, 2006 Annual Report.

OTHER

Outstanding Share Data

As at August 3, 2006, there were 20,975,879 common shares, 820,068 share options and 866,250 warrants outstanding.

Consolidated Balance Sheets

(unaudited)

	June 30 2006 \$	March 31 2006 \$
<i>(in thousands of dollars)</i>		
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 <i>[note 3]</i>	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 <i>[note 4]</i>	–	114
Accounts payable and accrued liabilities <i>[note 7]</i>	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 <i>[note 5a]</i>	22,193	21,397
Contributed surplus <i>[note 5a]</i>	456	348
Retained earnings	5,562	6,686
	28,211	28,431
	38,399	36,557

See accompanying notes

Consolidated Statements of Income and Retained Earnings

(unaudited)

Three months ended June 30

	2006	2005
	\$	\$
<i>(in thousands of dollars, except per share amounts)</i>		
Revenue	12,552	8,287
Manufacturing and selling costs <i>[notes 6a and 7]</i>	10,025	6,979
	2,527	1,308
Amortization <i>[note 3]</i>	382	363
General and administration <i>[note 6a]</i>	767	462
Financing (income) charges <i>[note 8]</i>	(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 <i>[note 5b]</i>	(2,081)	(1,438)
Retained earnings, end of the period	5,562	3,187
Basic earnings per share <i>[note 10]</i>	\$0.05	\$0.01
Diluted earnings per share <i>[note 10]</i>	\$0.04	\$0.01

See accompanying notes

Consolidated Statements of Cash Flows

(unaudited)

Three months ended June 30

(in thousands of dollars)	2006 \$	2005 \$
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 <i>[note 6a]</i>	137	35
	1365	712
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 <i>[note 5a]</i>	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 <i>[note 2]</i>	–	(2,597)
Purchase of property, plant and equipment	(387)	(289)
Deferred development costs <i>[note 3]</i>	–	(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	–

See accompanying notes

Notes to Consolidated Financial Statements

June 30, 2006 and 2005 (unaudited)

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, 2006. 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 retained earnings 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 fiscal quarters generally have lower levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada. However, as the Company has expanded its product lines into new markets that have different seasonality or that are less influenced by the effect of weather in the timing of installation, the seasonality impact has been diminished.

2. Business Acquisitions

There were no business acquisitions during the current fiscal period.

In April 2005, the Company acquired 100% of the shares of Triple M Fiberglass Mfg. Ltd. (Triple M) located in Edmonton Alberta. Triple M manufactures fiberglass underground and aboveground tanks, vessels, pipe and other custom environmental products.

The acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations from April 1, 2005. Cash consideration for the purchase was \$2,000,000, including acquisition costs.

The fair value of the net assets acquired and liabilities assumed was as follows:

(in thousands of dollars)	\$
Bank indebtedness assumed	(597)
Non-cash working capital	1,330
Property, plant and equipment	1,720
Non-contractual customer relationships	75
Customer order backlog	20
Product certification and safety marks	20
Future tax liabilities	(568)
Net assets acquired	2,000

Amortization of non-contractual customer relationships is computed using the straight-line method over two to three years. Amortization of customer order backlog is computed using the straight-line method over six months. Product certification and safety marks are indefinite life assets and are not subject to amortization.

3. Deferred Costs and Amortization

The unamortized balance of deferred costs at June 30, 2006 and March 31, 2006 was comprised of deferred development costs. There were no development costs incurred during the three month period (2005 - \$178,000). The costs related to development projects in process at June 30, 2006 were not amortized during the period. The total amount of research and development charged to expense for the period is not separately identifiable, as such costs are only tracked for development projects that are deferred.

Amortization expense consists of amortization of the following:

Three months ended June 30	2006	2005
(in thousands of dollars)	\$	\$
Property, plant and equipment	251	232
Deferred development costs	5	5
Intangible assets	128	128
Government grants	(2)	(2)
	382	363

4. Bank Indebtedness

The Company has operating lines of credit of \$10,250,000 provided by a chartered bank. These lines of credit are payable on demand and bear interest at prime rate plus 0.25% (6.25%; March 31, 2006 – 5.75%). The operating lines of credit contain certain restrictive covenants including the maintenance of certain financial ratios and limitations on capital expenditures and additional debt. The Company has pledged as collateral a general security agreement, guarantees of subsidiaries, and a pledge of inventory under section 427 of the Bank Act.

5. Share Capital and Contributed Surplus

a) Share capital and contributed surplus

Issued and outstanding

	Share Capital				Contributed Surplus	
	2006		2005		2006	2005
	Shares	Shares	Shares	Shares	\$	\$
(in thousands of dollars, except shares)	#	\$	#	\$	\$	\$
Balance, beginning of the period	20,118,953	21,397	17,943,919	19,277	348	171
Share options exercised for cash	25,333	29	25,333	33	–	–
Warrants exercised for cash	776,593	738	11,633	11	–	–
Stock-based compensation expense	–	–	–	–	137	35
Reclassification of fair value of stock options and warrants previously expensed	–	29	–	–	(29)	–
Balance, end of period	20,920,879	22,193	17,980,885	19,321	456	206

At the Annual General and Special Meeting of Shareholders on August 18, 2003, the shareholders approved the reduction of the stated capital of the Company. Accordingly, in 2003, contributed surplus was reduced by \$745,000, share capital by \$8,298,000, and accumulated deficit by \$9,043,000.

b) Dividends

On June 15, 2006, an annual dividend of \$0.10 (2005 - \$0.08) per common share was declared for all shareholders of record on June 26, 2006. The dividends of \$2,081,000 (2005 - \$1,438,000) are to be paid on August 4, 2006.

c) Share options and warrants

	2006		2005	
	Share options #	Warrants #	Share options #	Warrants #
Balance, beginning of the period	812,067	1,681,177	1,160,734	3,445,878
Granted	50,000	–	–	–
Exercised	(25,333)	(776,593)	(25,333)	(11,633)
Balance, end of the period	836,734	904,584	1,135,401	3,434,245

6. Stock-Based Compensation

The Black-Scholes model, used by the Company to calculate the values of options and warrants, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely-tradeable, fully-transferable options and warrants without vesting restrictions. Such options and warrants differ significantly from the share options granted and warrants transferred by the Company. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair values of the share options granted and warrants transferred by the Company.

a) Share options granted and warrants transferred on or after April 1, 2003

The Company uses the fair value method of accounting for all share options granted and warrants transferred to employees on or after April 1, 2003. During the first quarter this fiscal period, 50,000 share options were granted at market share price on the grant date (2005 – nil), and no warrants were transferred to employees (2005 – 137,106 warrants were transferred with exercise prices below the market share price on the transfer date. Stock-based compensation expense of \$137,000 (2005 - \$35,000) was recorded in the first quarter in manufacturing and selling costs and general and administration in the consolidated statements of income.

Notes to Consolidated Financial Statements continued

The following estimated fair values of these share options and warrants were determined, at the date of the grants or transfers, using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Share Options		Warrants	
	Granted at Market	Granted in Excess of Market	Transferred in Excess of Market	Transferred Below Market
Weighted-average fair value	\$0.85	\$0.29	\$0.18	\$1.02
Risk-free interest rate (%)	3.90	3.89	4.37	3.45
Expected hold period to exercise (years)	4.0	4.0	4.5	3.0
Volatility in the price of the Company's shares (%)	52.8	60.8	60.5	53.1
Dividend yield (%)	0.88	0.00	0.00	0.92

b) Share options granted and warrants transferred in fiscal 2003

The fair value of share options granted and warrants transferred in fiscal 2003, all of which were granted or transferred with exercise prices in excess of the market share price on the grant or transfer date, were determined, at the date of grants or transfers, using the Black-Scholes option pricing model. The following table provides the required pro-forma measures of net income and earnings per share had compensation expense been recognized based on the fair value, as at the date of the grant or transfer, of the options granted and warrants transferred to employees in fiscal 2003, in accordance with the fair value method of accounting for stock-based compensation:

	2006	2005
Three months ended June 30		
(in thousands of dollars, except earnings per share)	\$	\$
Net income for the period	957	244
Stock-based compensation expense	53	53
Pro-forma net income for the period	904	191
Earnings per share:		
Reported basic earnings per share	0.05	0.01
Compensation expense per share	0.01	0.00
Pro-forma basic earnings per share	0.04	0.01
Reported diluted earnings per share	0.04	0.01
Compensation expense per share	0.00	0.00
Pro-forma diluted earnings per share	0.04	0.01

The following estimated fair values of these options and warrants were determined using the following weighted-average assumptions:

	Share Options	Warrants
Weighted-average fair value	\$0.37	\$0.38
Risk-free interest rate (%)	4.0	4.0
Expected hold period to exercise (years)	4.0	5.0
Volatility in the price of the Company's shares (%)	61.6	56.2
Dividend yield (%)	0.0	0.0

7. Related Party Transactions

During the period, trucking services of \$133,000 (2005 - \$86,000), included in manufacturing and selling costs in the consolidated statements of income, were provided by a corporation controlled by a director of the Company. Accounts payable and accrued liabilities at June 30, 2006 included \$99,500 (March 31, 2006 - \$16,500) owing to the corporation. Normal commercial rates were paid for these services.

8. Financing (Income) Charges

Three months ended June 30

	2006	2005
(in thousands of dollars)	\$	\$
Interest, short term	11	31
Foreign exchange (gains) losses	(19)	38
	(8)	69

9. Income Taxes

The federal and certain provincial governments have recently announced a number of changes to income taxes and rates. As these changes have received royal assent and were therefore substantively enacted during the first quarter, the Company has made an adjustment to reduce income tax expense by approximately \$92,600 for the quarter. The resulting future tax liabilities reflect the lower anticipated taxes that will be paid as the temporary income tax differences reverse in future years.

10. Earnings Per Share

The following table sets forth the weighted-average number of common shares outstanding for the computation of basic and diluted earnings per share:

	2006	2005
(in thousands of dollars, except number of shares)	\$	\$
Numerator:		
Net income available to common shareholders	957	244
Denominator:		
Weighted average shares outstanding - basic	20,559,572	17,949,606
Effect of dilutive securities		
Share options	537,463	710,626
Warrants	836,602	1,548,817
Weighted average shares outstanding - diluted	21,933,637	20,209,049

In 2005, certain of the warrants were not included in the calculation of diluted shares as the market price was below the performance vesting threshold.

11. Statement of Cash Flows

Supplementary disclosures required in respect of the Statement of Cash Flows are as follows:

	2006	2005
	\$	\$
Interest paid	11	31
Income taxes paid	307	1,165

12. Segmented Information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

The Company operates in two reportable segments namely liquid containment storage systems, including fiberglass underground and aboveground storage tanks and related products and accessories, and home heating oil tanks. In addition to the above noted operating segments, corporate administration and other operating segments reported to the Chief Executive Officer and are included in the All Other reportable segment. Revenue for All Other is derived from the sale of finished three-dimensional fabric materials from the Company's operations in the Netherlands.

Segmented information is summarized as follows:

	June 30, 2006				
	Liquid Containment Storage	Home Heating Oil Tanks	All Other	Inter-Segment Adjustments	Total
(in thousands of dollars)	\$	\$	\$	\$	\$
Revenue	11,619	552	1,044	(663)	12,552
Inter-segment revenue	-	-	(663)	663	-
External revenue	11,619	552	381	-	12,552
General and administration expenses	-	-	767	-	767
Interest expense	-	-	11	-	11
Amortization expense	334	28	20	-	382
Income (loss) before income taxes	2,354	(272)	(696)	-	1,386
Acquisition of property plant and equipment	387	-	-	-	387
Goodwill	1,991	-	-	-	1,991
Total Assets	34,720	2,608	1,381	(310)	38,399

	June 30, 2005				
	Liquid Containment Storage	Home Heating Oil Tanks	All Other	Inter-Segment Adjustments	Total
(in thousands of dollars)	\$	\$	\$	\$	\$
Revenue	7,468	334	969	(484)	8,287
Inter-segment revenue	-	-	(484)	484	-
External revenue	7,468	334	485	-	8,287
General and administration expenses	-	-	462	-	462
Interest expense	-	-	31	-	31
Amortization expense	315	28	20	-	363
Income (loss) before income taxes	1,163	(193)	(556)	-	414
Acquisition of property plant and equipment	289	-	-	-	289
Goodwill	1,991	-	-	-	1,991
Total Assets	28,358	2,684	1,551	(270)	32,323

Information about geographic areas

	Revenues		Property, plant and equipment and goodwill	
	2006 \$	2005 \$	2006 \$	2005 \$
(in thousands of dollars)				
Canada	12,171	7,802	11,373	11,299
Foreign countries	381	485	655	715
	12,552	8,287	12,028	12,014

Revenue is attributed to the geographic area based on location of the Company's operations. No revenue attributed to any individual foreign country is material. The property, plant and equipment relating to foreign countries are located in The Netherlands.

Corporate Information

Board of Directors

James S. Edwards, Chairman of the Board
 Venence G. Côté, Director, President and CEO
 Fred J. Dymont, Director
 Roderick Graham, Director
 Simon Sochatsky, Director

Corporate Office

6907 - 36 Street
 Edmonton, Alberta
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Common Shares Outstanding

as of August 3, 2006

Total Outstanding: 20,975,879

Investor Relations

Copies of this Quarterly Report
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Stock Listing and Share Symbol

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