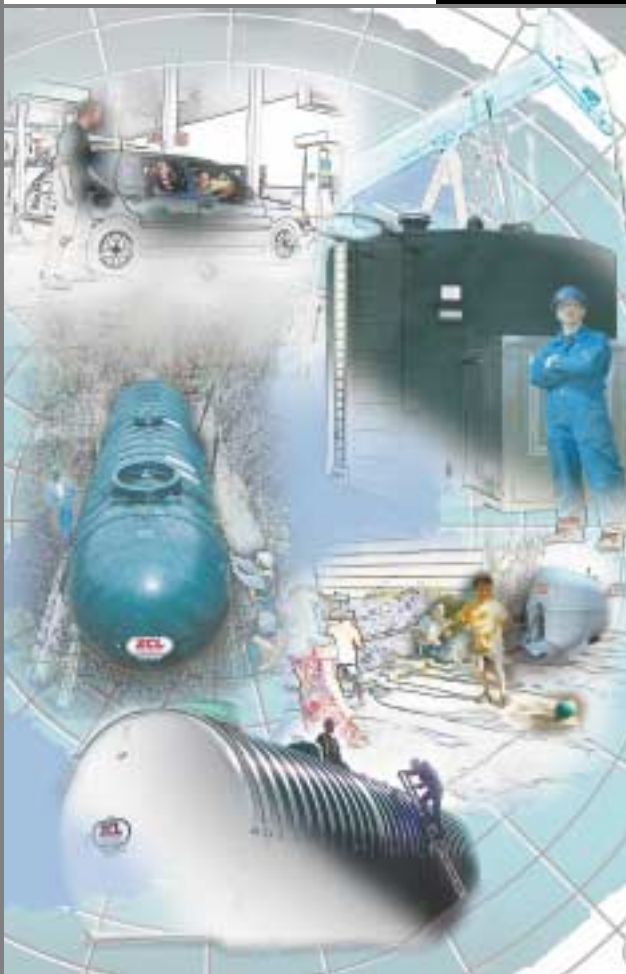


ZCL COMPOSITES INC.
SECOND QUARTER REPORT

2005



Setting a Higher Standard

Message to Shareholders

We are pleased to report record results for the quarter, in terms of both revenue and net income. Revenue for the second quarter increased by 39.6% to \$11.0 million (increased by 13.2% to \$17.3 million for six months) from \$7.9 million (\$15.3 million for six months) last year. Net income for the quarter increased to \$1.2 million (\$1.3 million for six months) from \$97,000 (\$333,000 for six months) in 2003. Basic and diluted earnings per share for the second quarter increased to \$0.07 (\$0.07 for six months) from \$0.01 (\$0.02 for six months) last year.

The outlook for the downstream and upstream sectors of the petroleum industry, as well as other traditional markets, continues to be very positive for this fiscal year. After a slow start, activity and the order backlog picked up during the first quarter and remained strong through the second quarter. The third quarter is also off to a strong start. The steel tank manufacturing business, acquired from Durex Steel & Alloy Industries Ltd. ("Durex") during the first quarter, has been integrated into our overall liquid storage operations and contributed to revenue. Products introduced in recent years – home heating oil tanks, Protector® and Pinnacle™ oilfield tanks, filament wound pressure vessels, as well as custom storage and lining systems – continue to gain market acceptance and add to revenue. In the second quarter last year, the \$880,000 provision for impairment of the agreement receivable from ZCL Enviro Systems, Inc. decreased net income by \$580,000 or \$0.03 per share.

The foundation of our success is meeting and servicing the needs of our customers. During the quarter, we announced another major customer long-term contract. Contracts and recognition such as these are an expression of confidence in ZCL, and our commitment and ability to consistently supply the high quality products and services that our customers value.

It is with this same commitment that we spotlight the development of our tank lining systems. Our lining products adapt proven technology from our double wall tank manufacturing processes and leverage our core competencies and customer relationships. The development program is on schedule and field trials will commence later this fiscal year. Tank lining is a very large and lucrative international market and, at this time, there are no competitive alternative products in the marketplace. We are poised to take advantage of this tremendous opportunity with the anticipated marketing of this product by the end of our fiscal year.

In addition to tank lining, we have targeted the aboveground storage tank (AGST) market for growth. With the acquisition of the business assets of Durex, we now offer a full line of products to our existing alliance customers as well as to new customers. This acquisition allows us to access the retail AGST market which has eluded us until now.

During the quarter, we achieved another significant product milestone. Our home heating oil tank received Underwriters' Laboratories (UL) approval for the USA market – we previously had Underwriters' Laboratories of Canada (ULC) approval and currently sell this product only in Canada. Furnace oil is used for heating in about 8 million households in North America, largely Eastern Canada and North-Eastern USA. A growing concern is leaking tanks and the resulting environmental and liability problems. Our product surpassed industry standards and regulations, and offers a new level of security for home owners, insurance companies and lenders.

I am very pleased to see the improvement in our share price. This increase reflects our performance over the past few quarters. Continued improvement will come from sustained strong financial results, together with an enhanced investor communication program. The first annual dividend of \$0.06 per common share that we announced in the first quarter was paid on August 4, 2004. During the second quarter, the Toronto Stock Exchange accepted our notice to purchase up to five percent of the outstanding common shares under our second normal course issuer bid. We have not made any purchases under this NCIB.

We are solidly on target to realize our annual revenue growth objective of 15% to 20%. Notwithstanding the slow start in the first quarter, we achieved a record second quarter and I am confident that we can reach this target again this 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 and Chief Executive Officer

November 5, 2004

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