



Third Quarter Report 2004

Message to Shareholders

Revenue in the third quarter increased by 51% to an overall record quarter of \$10.7 million (increased by 29% to \$26.0 million for nine months), from \$7.1 million (\$20.2 million for nine months) last year. Activity in the downstream and upstream sectors of the petroleum industry, as well as in other traditional markets, was strong in the quarter. The third quarter this year also got off to a good start with the completion and shipment of a number of large orders that were delayed from the second quarter.

Net income for the third quarter was \$1.1 million, or \$0.06 per share (\$1.5 million or \$0.08 per share for nine months), up from income of \$108,000, or \$0.01 per share (\$752,000 or \$0.02 per share for nine months), last year. Net earnings were reduced by \$580,000, or \$0.03 per share, in the second quarter of this year, as a result of the provision for impairment of the agreement receivable from ZCL Enviro Systems, Inc. We are taking all actions available to recover the amounts outstanding, and any future recoveries will have a positive affect on our financial results. Last year, convertible subordinated debenture ("debenture") costs of \$461,000 for the nine-month period (\$nil for the third quarter last year) were deducted in the calculation of earnings per share, and with the repayment of the debenture, these costs were eliminated.

In early January, we were honoured to be recognized as one of Canada's 50 Best Managed Companies. This is a national awards program, sponsored by Deloitte, CIBC Commercial Banking, National Post and Queens School of Business, that recognizes the 50 Best businesses from a wide range of industries that have implemented world-class best business practices. This prestigious award is shared with and celebrated by the whole of our organization. We remain committed to quality products, constantly raising the standards for economical, environmentally-safe and long-lasting liquid storage technology.

Our current focus is the development and marketing of our tank lining technologies. We are working with customers and suppliers to finalize new lining materials and processes, and in keeping with our innovative industry leadership, we are striving to develop a product with superior quality and performance, along with inherently safe installation techniques. We have also identified a number of other products to reach new markets.

Our share price has also improved somewhat over the past several weeks. Continued improvement will come from sustained strong operating results, together with an enhanced investor communication program. The Toronto Stock Exchange accepted our notice in July 2003 to purchase up to five percent of the outstanding common shares under a normal course issuer bid, and, to date, 222,000 common shares have been repurchased for cancellation. We still believe that our share price does not reflect the current value of your Company.

Our third quarter was an overall record in terms of revenue from liquid storage systems. Notwithstanding that the fourth quarter traditionally has a lower level of activity, we remain on track to meet our overall growth objectives for this fiscal year, and the outlook for next year is very positive. 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

February 12, 2004

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 Third 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 retained earnings (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 second and third fiscal quarters have the highest levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada.

Net income

Net income for the third quarter was \$1.1 million (\$1.5 million for nine months) as compared to \$108,000 in the third quarter (\$752,000 for nine months) last year. The basic and diluted earnings per share for the third quarter were \$0.06 (\$0.08 for nine months) as compared to \$0.01 per share (\$0.02 for nine months) last year.

The increase this year was the result of the increase in revenue. Earnings were reduced by \$0.03 per share in the second quarter of this year, as a result of the provision for impairment of the agreement receivable from ZCL Enviro Systems, Inc. ("Enviro") of \$880,000 (\$580,000 after tax). Last year, convertible subordinated debenture ("debenture") costs, net of tax, of \$nil for the third quarter (\$461,000 for the nine-month period) were deducted in the calculation of earnings per share. The debenture was repaid in September 2002 and these costs have been eliminated.

Stock options and warrants were 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 last year as the market share price was below the threshold conversion price of \$3.00.

Revenue

Revenue in the third quarter increased by 50.9% to \$10.7 million (increased by 28.6% to \$26.0 million for nine months), from \$7.1 million (\$20.2 million for nine months) last year. As described in Note 6, freight amounts billed to customers were recorded as revenue, rather than netted against freight costs which were recorded as part of manufacturing and selling costs.

The increase in the quarter was the result of strong activity in the downstream and upstream sectors of the petroleum industry, as well as in other traditional markets. The third quarter this year also got off to a good start with the completion and shipment of a number of large orders that were delayed from the second quarter.

The development and marketing of the tank lining technologies, as well as other new products, continues to be a priority for the Company. 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 \$2.9 million, or 26.9% of revenue, in the third quarter (\$6.4 million, or 24.5% of revenue, for nine months) from \$1.2 million, or 16.5% of revenue, in the quarter (\$4.1 million, or 20.5% of revenue, for nine months) last year.

The increase this year was the result of the increase in revenue. Last year, additional costs were incurred as steps were taken to integrate the newly acquired operations of Mocoat Services Incorporated ("Mocoat") and Parabeam Industries BV ("Parabeam") into the overall liquid storage business. Overall manufacturing margins and costs have been maintained at similar levels as last year, and efforts to further improve production processes and reduce costs are ongoing.

Amortization

Amortization of \$505,000 for the third quarter (\$1.5 million for nine months) was approximately the same as last year (\$497,000 for the quarter and \$1.5 million for nine months). The slight

increase for the nine-month period this year was due to the amortization of assets of Parabeam acquired in September 2002.

General and administration

General and administration expenses increased to \$562,000 for the third quarter this year (\$1.4 million, or 5.4% of revenue, for nine months) from \$370,000 for the quarter (\$1.2 million, or 5.7% of revenue, for nine months) last year. These costs have generally been maintained at the same levels as last year, and include the accrual of management incentives of \$150,000 this year.

Provision for impairment of agreement receivable

During the second quarter this year, a provision for impairment of the full amount of the agreement receivable from Enviro of \$880,000 was recorded. As described in Note 2, Enviro has not made any payments under the agreement receivable since the fourth quarter of last year, and due to current business conditions in the Philippines, has been unable to commit to a revised repayment schedule. The amounts and timing of future repayment, and the fair value of underlying security, net of expected costs of realization, cannot be estimated with reasonable reliability. All available courses of action continue to be pursued to collect the balance of the receivable or otherwise realize upon security.

Financing charges

Financing charges for the third quarter were \$61,000 (\$256,000 for nine months), as compared to \$110,000 for the quarter (\$291,000 for nine months) last year. During the third quarter, the long-term bank debt, resulting from the refinancing in September 2002, was repaid in full. At that time, the debenture was repaid and the corresponding high costs were eliminated. Last year, financing charges relating to short-term indebtedness associated with the acquisition of Mocoat were also incurred.

Income taxes

The Company's tax rate is approximately the same as last year, and overall income taxes are affected by non-deductible expenses and the large corporations tax. 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 at December 31, 2003 was \$8.6 million, approximately the same level as at March 31, 2003. After repayment of long-term debt during the quarter, cash was \$1.7 million at December 31, 2003, as compared to \$1.3 million at March 31, 2003. This overall improved position was the result of the profitable operations during the period.

Due to the timing of cash receipts and payments during the period, cash of \$4.1 million was provided by operating activities in the third quarter this year (\$5.6 million for nine months), as compared to \$3.3 million in the quarter (\$4.5 million for nine months) last year. Cash flows from financing activities reflect the repayment of long-term debt this year, and the private placement of common shares and warrants to ARC Energy Venture Fund 3, refinancing of bank term debt, and repayment of the debenture, last year. Cash flows from investing activities last year included the acquisitions of Mocoat and Parabeam.

Accounts receivable were \$5.1 million at December 31, 2003 (\$4.6 million at December 31, 2002), down 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 revenue, but at a particular point in time, depending on the timing of sales, there may be higher proportionate exposure in accounts receivable. At December 31, 2003, one customer accounted for 22% (March 31, 2003 – one customer, 17%) of accounts receivable.

Inventories were \$5.3 million at December 31, 2003 (\$5.0 million at December 31, 2002), and \$5.4 million at March 31, 2003. Accounts payable and accrued liabilities were \$3.9 million at December 31, 2003 (\$3.7 million at December 31, 2002), approximately the same as at March 31, 2003. These are normal seasonal levels based on activity in the fiscal quarters.

Shareholders' equity increased to \$20.4 million, as a result of net income for the period. At the Annual General and Special Meeting on August 18, 2003, shareholders passed a special resolution to eliminate the deficit at March 31, 2003 and reduce the stated capital of the Company. Accordingly, in the second quarter, contributed surplus was reduced by \$745,000, share capital by \$8.3 million, and accumulated deficit by \$9.0 million.

Management's Discussion and Analysis – continued

During the second quarter, the Toronto Stock Exchange ("TSX") 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 actual number and timing of any purchases will be determined by the Company, and the price for any such shares will be the market price. 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.

Pursuant to the NCIB, 221,000 common shares were repurchased for cancellation during the third quarter (2002 – nil) and 222,000 during the nine-month period (2002 – nil). Note 3 details the cost, reduction of share capital, and increase in contributed surplus relating to these repurchases.

Consolidated Financial Statements



Consolidated Balance Sheets

(Unaudited)

(in thousands of dollars)

Assets

Current

Cash
Accounts receivable
Inventories
Prepaid expenses
Future tax assets

Agreement receivable (note 2)
Capital assets
Deferred costs
Intangible assets
Goodwill
Future tax assets

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities
Income taxes payable
Current portion of long-term debt
Future tax liabilities

Long-term debt
Government grants
Future tax liabilities

Shareholders' equity

Share capital (note 3)
Contributed surplus (notes 3 and 4)
Retained earnings (deficit) (note 3)

See accompanying notes

	December 31 2003 \$	March 31 2003 \$
	1,709	1,333
	5,120	6,104
	5,252	5,379
	350	115
	121	421
	12,552	13,352
		880
	7,850	7,981
	871	1,579
	1,430	1,748
	1,926	1,926
		548
	24,629	28,014
	3,885	3,870
	54	82
		714
	16	17
	3,955	4,683
		3,929
	163	169
	141	153
	4,259	8,934
	18,840	27,378
	63	745
	1,467	(9,043)
	20,370	19,080
	24,629	28,014

Consolidated Statements of Income and Retained Earnings (Deficit)

(Unaudited)

Periods ended December 31

(in thousands of dollars, except per share amounts)

Revenue

Manufacturing and selling costs

Amortization

General and administration

Provision for impairment of agreement receivable (note 2)

Operating income

Financing charges

Income before income taxes

Income taxes

Current

Future

Net income for the period

Retained earnings (deficit), beginning of the period

Common share issue costs, net of tax

Convertible subordinated debenture costs, net of tax

Reduction of stated capital (note 3)

Retained earnings (deficit), end of the period

Basic and diluted earnings per share (note 5)

See accompanying notes

Three months		Nine months	
2003	2002	2003	2002
\$	\$	\$	\$
10,726	7,110	26,031	20,245
7,843	5,938	19,666	16,102
2,883	1,172	6,365	4,143
505	497	1,504	1,461
562	370	1,406	1,151
		880	
1,816	305	2,575	1,531
61	110	256	291
1,755	195	2,319	1,240
6	7	17	23
615	80	835	465
621	87	852	488
1,134	108	1,467	752
333	(9,155)	(9,043)	(8,976)
			(362)
			(461)
		9,043	
1,467	(9,047)	1,467	(9,047)
\$0.06	\$0.01	\$0.08	\$0.02

Consolidated Statements of Cash Flows

(Unaudited)

Periods ended December 31

(in thousands of dollars)

Cash Flows from Operating Activities

Cash receipts from customers
Cash paid to suppliers and employees
Interest paid
Income taxes paid

Cash Flows from Financing Activities

Issue of long-term debt
Finance costs
Repayment of long-term debt
Repurchase of common shares for cancellation (note 3)
Issue of common shares and warrants
Common share issue costs
Repayment of convertible subordinated debenture
Convertible subordinated debenture costs

Cash Flows from Investing Activities

Collection of agreement receivable
Business acquisitions, including bank indebtedness assumed
Purchase of capital assets
Product development costs deferred

Increase (decrease) in cash

Cash, beginning of the period

Cash, end of the period

See accompanying notes

Three months		Nine months	
2003	2002	2003	2002
\$	\$	\$	\$
11,645	9,907	27,004	22,036
(7,521)	(6,503)	(21,137)	(17,233)
(43)	(104)	(192)	(294)
(24)	(13)	(45)	(37)
4,057	3,287	5,630	4,472
			5,000
	(25)		(164)
(4,285)	(208)	(4,643)	(3,097)
(188)		(189)	
			7,000
	(20)		(548)
			(8,185)
			(348)
(4,473)	(253)	(4,832)	(342)
	31		307
	(248)		(1,499)
(151)	(57)	(422)	(235)
	(7)		(11)
(151)	(281)	(422)	(1,438)
(567)	2,753	376	2,692
2,276	130	1,333	191
1,709	2,883	1,709	2,883

Notes to Consolidated Financial Statements

(Unaudited)

December 31, 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 retained earnings (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 second and third quarters of the Company's fiscal year have the highest levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada.

2. Agreement Receivable

ZCL Enviro Systems, Inc. ("Enviro") has not made any payments under the agreement receivable since the fourth fiscal quarter of last year, and due to current business conditions in the Philippines, has been unable to commit to a revised repayment schedule. The amounts and timing of future repayment, and the fair value of underlying security, net of expected costs of recovery, cannot be estimated with reasonable reliability. Accordingly, during the second quarter, a provision of \$880,000 was recorded for the impairment of the agreement receivable.

Although this allowance for impairment has been provided, all available courses of action will continue to be pursued to collect the balance of the receivable or otherwise realize upon security. As collateral for the agreement receivable, the Company is entitled to the return of its 40% interest in Enviro, which is incorporated under the laws of the Philippines and manufactures products under a long-term license agreement utilizing the Company's technology.

3. Share Capital and Contributed Surplus

a) Reduction of stated capital

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

b) Repurchase of shares for cancellation

During the period, common shares were repurchased for cancellation pursuant to a normal course issuer bid. The cost, reduction in share capital and increase in contributed surplus relating to these repurchases were as follows:

Periods ended December 31 (in thousands of dollars)	Three months		Nine months	
	2003	2002	2003	2002
	\$	\$	\$	\$
Cost of shares repurchased	188		189	
Reduction in share capital	238		240	
Increase in contributed surplus	50		51	

4. Stock-Based Compensation

The fair value of share 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 and earnings 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:

Periods ended December 31 (in thousands of dollars, except earnings per share)	Three months		Nine months	
	2003	2002	2003	2002
	\$	\$	\$	\$
Net income for the period	1,134	108	1,467	752
Compensation expense	56	54	169	56
Pro-forma net income for the period	1,078	54	1,298	696

Earnings per share:

Reported basic and diluted earnings per share	0.06	0.01	0.08	0.02
Compensation expense per share	0.00	0.00	0.01	0.00
Pro-forma basic and diluted earnings per share	0.06	0.01	0.07	0.02

4. Stock-Based Compensation – continued

The following estimated weighted-average fair values of these options and warrants, all of which were granted to employees with exercise prices in excess of the market share price on the grant date, were determined using the following weighted-average assumptions:

	December 31, 2003	December 31, 2002
Fair value of options (\$)	0.37	0.37
Fair value of warrants (\$)	0.36	0.38
Risk-free interest rate (%)	4.02	4.00
Expected hold period to exercise (years)	options 4.0 / warrants 4.9	options 4.0 / warrants 5.0
Volatility in the price of the Company's shares (%)	options 61.6 / warrants 56.6	options 61.6 / warrants 56.2
Dividend yield (%)	0.00	0.00

During the quarter, 75,000 share options were issued as consideration for consulting services provided by a non-employee. In accordance with the fair value method of accounting for stock-based compensation for non-employees, during the quarter, an amount of \$12,000 (2002 – \$nil) was recorded as contributed surplus and an expense in the statement of income.

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, which significantly differ from the share options and warrants granted by the Company. These models also require highly subjective assumptions, including future share price volatility and expected time until exercise, which greatly 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 and warrants granted by the Company.

5. Earnings Per Share

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

Periods ended December 31 (in thousands of dollars, except shares)	Three months		Nine months	
	2003	2002	2003	2002
	\$	\$	\$	\$
Net income for the period	1,134	108	1,467	752
Convertible subordinated debenture costs, net of tax				461
Net income available to common shareholders	1,134	108	1,467	291
	#	#	#	#
Weighted average number of shares outstanding – basic and diluted	17,629,442	17,573,378	17,687,375	12,678,032
Shares outstanding, end of the period	17,494,920	17,573,378	17,494,920	17,573,378

Share options and warrants were not included in the calculation of diluted shares as their exercise prices exceed the average market share price for the periods. The convertible subordinated 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.

6. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's consolidated financial statements.

In the current period, freight amounts billed to customers were recorded as revenue, rather than netted against freight costs which were recorded as part of manufacturing and selling costs. Accordingly, freight billed to customers of \$331,000 (2002 – \$270,000) for the third quarter, and \$801,000 (2002 – \$766,000) for the nine-month period, was included in revenue.



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Stock Listing and Share Symbol
Toronto Stock Exchange: **ZCL**

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