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ZCL COMPOSITES INC.

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2001 FIRST QUARTER REPORT

ZCL COMPOSITES INC.

Report to Shareholders

Our profitable first quarter reflects the steps we have taken over the past two years to strengthen our core business. Strong prices for oil and gas, coupled with our success in reducing manufacturing costs, have resulted in positive results for the quarter, and are expected to continue during the year.

Revenue for the quarter increased by over 13% to $6.5 million from $5.7 million last year. Increased demand for our products is fueled by upgrade programs and new retail gasoline outlets across Canada, and mounting environmental awareness. In addition to the buoyant petroleum industry markets, revenue from other sectors using our products, such as the aquaculture industry (LeGay Fiberglass products), and from new products, such as the Protektor aboveground tank, continues to increase.

Utilizing our technology and manufacturing expertise, a number of new products have been introduced into several market sectors. Our fiberglass aboveground Fuel Oil Tank surpassed stringent fire tests and is now approved by Underwriters' Laboratories of Canada (ULC). This tank offers non-corrosive containment for home heating fuel oil and storage of fuel for backup generators. Our fiberglass Septic Tank was recently approved by the Canadian Standards Association (CSA) for residential and industrial applications, including the storage and processing of water, wastewater, and household sewage. Sales of these products commenced in the first quarter and will generate additional sources of revenue.

The litigation with Xerxes Corporation, a USA licensor, was settled in May 2000. Although this dispute was costly and time-consuming, it was a necessary investment in future international growth and profit. Under the settlement agreement, $897,000 (US $600,000) was paid to Xerxes for certain license rights, liquidated damages, and an option to purchase the licensor's global license business. These settlement costs, and related legal fees, were accrued and included in the March 31, 2000 financial statements.

Tank markets in countries other than the USA are being considered but we are proceeding with caution. We are currently reviewing the costs and benefits of our option to purchase Xerxes' existing global license business, which was obtained as part of the settlement. This option would give us exclusive rights to license underground storage tank technology anywhere in the world outside of North America and the Caribbean.

The litigation with Xerxes had a negative impact on the USA operations and delayed the progress of our Phoenix lining system. The settlement of this litigation has confirmed our right to sell this system in the USA, and has eliminated much of the uncertainty and doubt in the minds of our prospective customers. Marketing of both underground and aboveground tank lining products has resumed. The development and testing of new lining materials and processes also is progressing.

ZCL Enviro Systems, Inc. in the Philippines is poised to take advantage of the increased demand for underground liquid storage tanks in that country. UL approval and expansion of their facility was completed last year to meet this higher demand. Major tank procurement programs have been announced and will commence during the year. These programs will generate increased positive results from the Philippines operations in future periods.

We remain confident about our future. Our proven technology and industry leadership represents the new generation of environmental protection and continues to drive our competitive advantage.

Results for the Quarter

Net earnings for the quarter of $225,000 are up from earnings of $111,000 in the first quarter last year. After adjusting for the costs of the convertible subordinated debenture, basic net earnings per share for the quarter was $0.01 as compared to a loss of $0.01 last year. Fully diluted earnings per share are anti-dilutive and accordingly not presented.

Operating earnings before amortization, general and administration and other costs decreased from $1.4 million (23.8% of revenue) in the first quarter last year, to $1.2 million (18.9% of revenue). This decrease is due to losses incurred by ZCL-USA, Inc. and included in operating results for the first quarter this year – losses of ZCL-USA for the first quarter last year were capitalized as deferred start-up costs. Overall tank manufacturing margins have been maintained. Production efficiencies and improved production processes have offset the effect of increased raw material costs. As part of this continual improvement program, the Drummondville, Quebec plant was ISO 9002 certified in November 1999, and the Edmonton, Alberta plant in May 2000.

Amortization for the quarter increased from $294,000 last year to $368,000, due to amortization of USA start-up costs which commenced in the fourth quarter of last year. General and administration expenses increased slightly to $519,000 (8.0% of revenue) in this quarter from $486,000 (8.5% of revenue) last year. No license litigation costs (professional fees and other costs relating to the litigation in the USA) were incurred this quarter as costs of the litigation and settlement with Xerxes were accrued at March 31, 2000 (costs of $132,000 in the first quarter last year). The Belleville, Ontario property was sold in the third quarter of last year and no additional plant shutdown costs (occupancy and other costs relating to the shutdown of the plant) were incurred this quarter (costs of $12,000 in the first quarter last year). Interest for the quarter decreased from $213,000 last year to $169,000 this year, reflecting lower bank indebtedness and long-term debt levels.

Working capital increased by $45,000 during the first quarter, as both current assets and current liabilities decreased by approximately $1.9 million from March 31, 2000. $2.9 million was drawn on the bank operating lines of credit at June 30, 2000, as compared to $3.3 million at June 30, 1999 and $3.5 million at March 31, 2000. Long-term debt decreased to $3.2 million, from $4.4 million at June 30, 1999 and $3.4 million at March 31, 2000. Total shareholders' equity increased to $15.9 million, after the earnings and costs of the convertible subordinated debenture for the quarter.

During the quarter, cash flows from operating activities increased by $2.1 million, from $1.1 million of cash used in operating activities last year to $1.0 million of cash provided by these activities this year.

Cash required for financing activities decreased to $321,000 in the quarter from $2.4 million last year. Last year, $1.85 million of the convertible subordinated debenture, plus the make-whole premium on this amount, was repaid during the first quarter.

Cash required for investing activities was $116,000 in the first quarter, as compared to cash flows from investing activities of $1.2 million last year. During the quarter last year, $1.5 million was collected from the sale of ZCL Distribution Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three months ended June 30 (in thousands of dollars)	**2000** **$**	1999 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**8,356**	4,466
Cash paid to suppliers and employees	**(7,243)**	(5,214)
Interest paid	**(149)**	(182)
Income taxes paid	**(4)**	(4)
Cash flows from continuing operations	**960**	(934)
Cash flows from discontinued operations	**47**	(141)
	1,007	(1,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(179)**	(177)
Repayment of convertible subordinated debenture		(1,850)
Convertible subordinated debenture costs	**(142)**	(413)
	(321)	(2,440)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of proceeds receivable	**101**	1,505
Purchase of capital assets	**(197)**	(89)
Cost of other assets	**(20)**	(212)
	\(116)	1,204
Decrease (increase) in bank indebtedness	**570**	(2,311)
Bank indebtedness, beginning of the period	**(3,518)**	(1,021)
Bank indebtedness, end of the period	**(2,948)**	(3,332)

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Three months ended June 30 (in thousands of dollars)	**2000** **$**	1999 $
Revenue	**6,495**	5,726
Manufacturing and selling costs	**5,266**	4,364
	1,229	1,362
Amortization	**368**	294
General and administration	**519**	486
Plant shutdown costs		12
License litigation costs		132
Operating earnings	**342**	438
Interest	**169**	213
Share of loss (income) from affiliate	**(10)**	8
	183	217
Income taxes		
Current	**6**	6
Future	**80**	100
	86	106
Net earnings before the following	**97**	111
Non-controlling interest	**128**	
Net earnings for the period	**225**	111
Basic net earnings (loss) per share	**$0.01**	($0.01)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars)	**June 30 2000 $**	March 31 2000 $
ASSETS		
Current		
Accounts receivable	**5,494**	7,416
Proceeds receivable	**135**	236
Inventories	**4,776**	4,716
Prepaid expenses	**353**	282
Future tax asset	**363**	363
	11,121	13,013
Investment in affiliate	**720**	710
Capital assets	**7,534**	7,512
Other assets	**5,037**	5,237
Future tax asset	**2,841**	2,820
	27,253	29,292
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**2,948**	3,518
Accounts payable and accrued liabilities	**4,751**	6,120
Income taxes payable	**56**	54
Current portion of long-term debt	**719**	719
Convertible subordinated debenture – liability portion	**200**	200
	8,674	10,611
Long-term debt	**2,455**	2,634
Government grants	**237**	243
	11,366	13,488
Non-controlling interest		101
Shareholders' equity		
Capital stock	**20,078**	20,078
Convertible subordinated debenture – equity portion	**6,528**	6,393
Contributed surplus	**45**	45
Deficit	**(10,764)**	(10,813)
	15,887	15,703
	27,253	29,292

V. (Ven) Côté
President & Chief Executive Officer

Tony Barlott
Vice President Finance & Chief Financial Officer

August 15, 2000