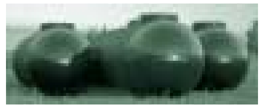
Protecting The Environment

ZCL COMPOSITES INC.



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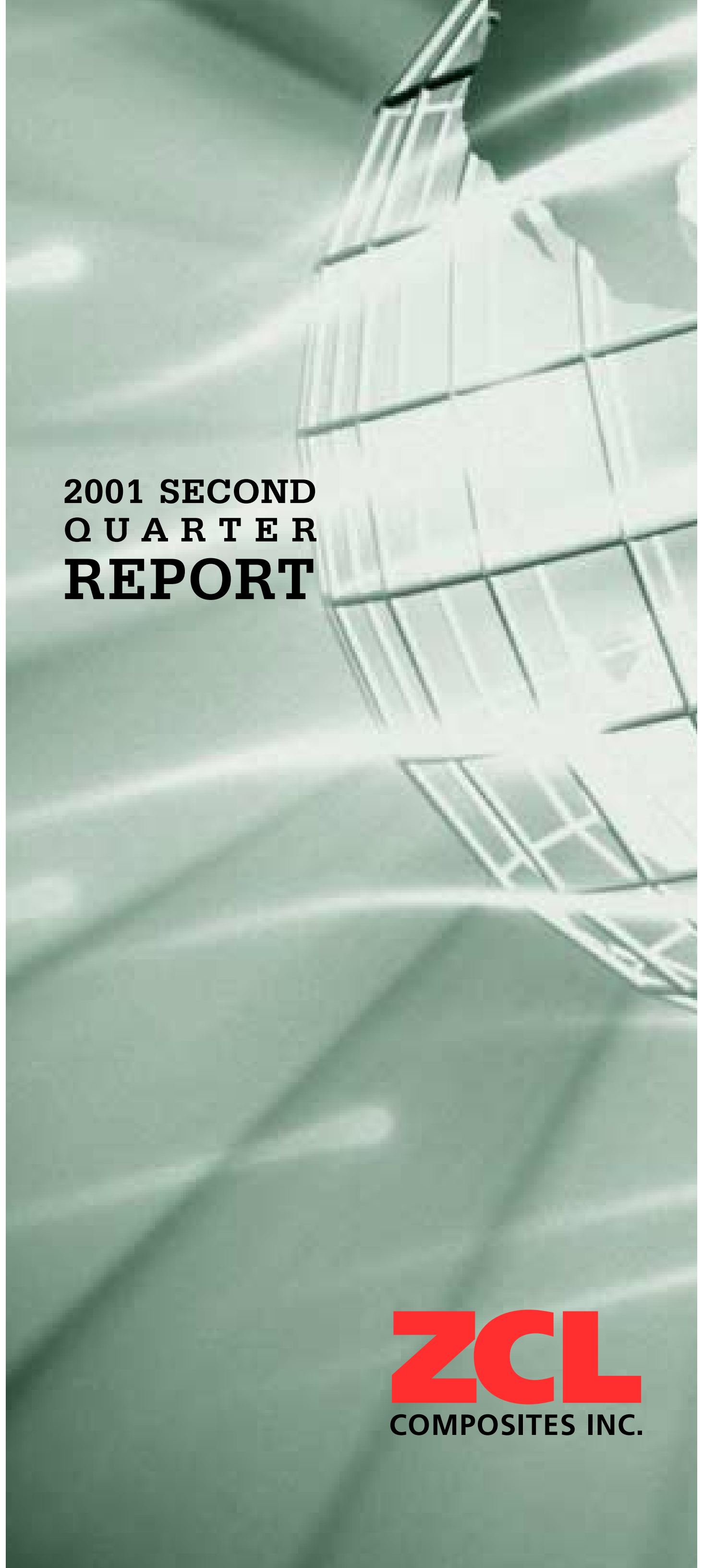

2001 SECOND QUARTER REPORT

ZCL COMPOSITES INC.

Report to Shareholders

We are very pleased to report a record second quarter – from the standpoint of both revenue and earnings. Our profitable quarter and six-month period reflect the success in focusing on our core business and improving our manufacturing processes, along with a strong marketplace driven by high oil and gas prices. These positive results are expected to continue during the year.

Revenue for the second quarter increased by 14% to $8.5 million from $7.5 million last year, and to $15.0 million for the six-month period this year from $13.2 million last year. This increase reflects strong markets in the petroleum industry, as well as other sectors using our products. Liquid storage system upgrade programs, new retail gasoline outlets, and mounting environmental awareness drive demand for our products in both the downstream and upstream sectors of the petroleum industry. Sales of new products, including our fiberglass Fuel Oil Tank and Septic Tank introduced earlier this year, also contributed to our increased revenue. These new products, plus additional new products being developed for introduction later this year, will generate increasing sources of revenue.

The settlement with Xerxes Corporation established clear parameters for our expansion into new international markets. We are carefully reviewing international markets outside of North America and the Caribbean, and alternatives to implement our corporate strategy of becoming a global supplier of liquid storage systems.

ZCL-USA, Inc. continues to incur losses, and we are not satisfied with the progress in developing markets for our underground and aboveground tank lining products. We are monitoring these operations, in order to eliminate the losses and refocus the marketing and development efforts in that marketplace.

ZCL Enviro Systems, Inc. incurred a loss in the second quarter, as significant tank procurement programs by several major customers in the Philippines did not commence until late in the quarter. This resumed activity will generate positive results in future periods. With the UL approval and expansion of the plant last year, ZCL Enviro Systems is well poised to take advantage of the increased demand for their products.

We remain confident that the positive results achieved this year, which reflect the steps we have taken to strengthen our core business, will continue in the future. Our proven technology, our leadership in the industry, and our innovation in meeting the needs of our customers, will drive our success.

Results for the Quarter

Net earnings for the second quarter were $716,000 ($941,000 for six months), up significantly from earnings of $277,000 in the quarter ($388,000 for six months) last year. After adjusting for the costs of the convertible subordinated debenture, basic net earnings per share was $0.06 for the second quarter ($0.06 for six months), as compared to $0.01 for the quarter ($0.01 for six months) last year. Fully diluted earnings per share are anti-dilutive, or not materially different than basic earnings per share, and accordingly not presented.

Operating earnings before amortization, general and administration and other costs remained at approximately the same levels as last year, at $2.2 million for the second quarter (25.5% of revenue for the quarter this year, as compared to 28.2% of revenue last year) and $3.4 million for the six-month period. These earnings did not increase over last year due to losses incurred by ZCL-USA, Inc. and included in operating results this year – losses of ZCL-USA for this period last year were capitalized as deferred start-up costs.

Overall tank manufacturing margins have been maintained or increased as compared to last year. Our focus on improving our manufacturing processes has resulted in production efficiencies that have offset the effect of increased raw material costs.

Amortization for the second quarter increased from $295,000 last year ($589,000 for six months) to $369,000 in the quarter ($737,000 for six months) this year, due to amortization of USA start-up costs which commenced in the fourth quarter of last year. General and administration expenses increased to $605,000 in the second quarter ($1.1 million or 7.5% of revenue for six months), from $465,000 in the quarter ($951,000 or 7.2% of revenue for six months) last year.

No license litigation costs (professional fees and other costs relating to the litigation in the USA) were incurred this year as costs of the litigation and settlement with Xerxes were accrued at March 31, 2000 (costs of $641,000 for the six-month period 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 year (costs of $311,000 for six months last year).

Interest for the second quarter decreased from $188,000 ($401,000 for six months) last year, to $137,000 ($306,000 for six months) this year, reflecting lower bank indebtedness and long-term debt levels.

Working capital increased by $926,000 in the second quarter ($971,000 for six months). Bank indebtedness was $3.2 million at September 30, 2000, as compared to $2.7 million at September 30, 1999 and $3.5 million at March 31, 2000. Long-term debt decreased to $3.0 million, from $4.2 million at September 30, 1999 and $3.4 million at March 31, 2000. Total shareholders' equity increased to $16.6 million, after the earnings and costs of the convertible subordinated debenture for the quarter.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six months ended September 30 (in thousands of dollars)	2000 $	1999 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**14,235**	9,971
Cash paid to suppliers and employees	**(12,859)**	(9,359)
Interest paid	**(264)**	(350)
Income taxes paid	**(4)**	(11)
Cash flows from continuing operations	**1,108**	251
Cash flows from discontinued operations	**54**	(226)
	1,162	25
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(359)**	(353)
Repayment of convertible subordinated debenture		(1,850)
Convertible subordinated debenture costs	**(283)**	(556)
	(642)	(2,759)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of proceeds receivable	**202**	1,813
Purchase of capital assets	**(348)**	(287)
Cost of other assets	**(55)**	(432)
	(201)	1,094
Decrease (increase) in bank indebtedness	**319**	(1,640)
Bank indebtedness, beginning of the period	**(3,518)**	(1,021)
Bank indebtedness, end of the period	**(3,199)**	(2,661)

Cash flows from operating activities increased significantly, from $25,000 last year to $1.2 million this year. Cash required for financing activities decreased to $642,000 for six months this year, from $2.8 million last year. Last year, $1.85 million of the convertible subordinated debenture, plus the make-whole premium on this amount, was repaid.

Cash required for investing activities was $201,000 for six months this year, as compared to cash flows from investing activities of $1.1 million last year. Last year, $1.8 million was collected from the sale of ZCL Distribution Inc. Costs relating to the development and start-up of the USA markets were capitalized and included in other assets last year, while losses of ZCL-USA, Inc. are included in operating results this year.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Period ended September 30 (in thousands of dollars)	Three months 2000 $	Three months 1999 $	Six months 2000 $	Six months 1999 $
Revenue	**8,537**	7,473	**15,032**	13,199
Manufacturing and selling costs	**6,360**	5,368	**11,626**	9,732
	2,177	2,105	**3,406**	3,467
Amortization	**369**	295	**737**	589
General and administration	**605**	465	**1,124**	951
Plant shutdown costs		299		311
License litigation costs		509		641
Operating earnings	**1,203**	537	**1,545**	975
Interest	**137**	188	**306**	401
Gain on disposal of capital assets		(98)		(98)
Share of loss (income) from affiliate	**65**	(20)	**55**	(12)
Earnings before income taxes	**1,001**	467	**1,184**	684
Income taxes				
Current	**7**	5	**13**	11
Future	**405**	185	**485**	285
	412	190	**498**	296
Net earnings before the following	**589**	277	**686**	388
Non-controlling interest	**127**		**255**	
Net earnings for the period	**716**	277	**941**	388
Basic net earnings per share	**$0.06**	$0.01	**$0.06**	$0.01

V. (Ven) Côté
President & Chief Executive Officer

Tony Barlott
Vice President Finance & Chief Financial Officer

November 16, 2000

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars)	September 30 2000 $	March 31 2000 $
ASSETS		
Current		
Accounts receivable	**8,124**	7,416
Proceeds receivable	**34**	236
Inventories	**4,612**	4,716
Prepaid expenses	**388**	282
Future tax asset	**220**	363
	13,378	13,013
Investment in affiliate	**655**	710
Capital assets	**7,510**	7,512
Other assets	**4,851**	5,237
Future tax asset	**2,679**	2,820
	29,073	29,292
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**3,199**	3,518
Accounts payable and accrued liabilities	**5,824**	6,120
Income taxes payable	**63**	54
Current portion of long-term debt	**719**	719
Convertible subordinated debenture – liability portion	**200**	200
	10,005	10,611
Long-term debt	**2,275**	2,634
Government grants	**231**	243
	12,511	13,488
Non-controlling interest		101
Shareholders' equity		
Capital stock	**20,078**	20,078
Convertible subordinated debenture – equity portion	**6,660**	6,393
Contributed surplus	**45**	45
Deficit	**(10,221)**	(10,813)
	16,562	15,703
	29,073	29,292