2000 FIRST QUARTER

REPORT

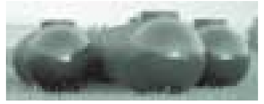
ZCL

COMPOSITES INC.

Protecting The Environment

ZCL

COMPOSITES INC.



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Report to Shareholders

We are pleased to report a profitable first quarter, and an increase over last year. The current upward trends in the marketplace, as oil and gas prices along with the industry's confidence increase, are encouraging and expected to continue. Our positive results also reflect the success of our focus on reducing manufacturing costs and increasing production margins.

Revenue for the quarter decreased to $5.7 million from $6.0 million last year. There were no export sales this quarter, while sales to the Philippines – prior to the opening of the plant by ZCL Enviro Systems, Inc. – were approximately $1.2 million for the first quarter last year. Domestic sales are up appreciably from last year, as activity firmed up during the quarter in the downstream sector of the Canadian petroleum industry. While upstream revenues remained soft, and were down from the first quarter of last year, activity in this sector is anticipated to increase as the year progresses. Due to the seasonal nature of the industry, the first quarter historically has a low level of activity.

Major oil companies are re-evaluating their global programs relating to standardization of specifications for liquid storage systems. This should set the stage for continued domestic and international growth, with our international reputation as the technological innovator in the industry, our international alliance agreements and relationships, and our record of high quality and service.

The preliminary injunction in the United States, restraining the Company from selling double-wall tanks outside of Canada, is still in place and has been appealed. The arbitration and litigation process is ongoing. While we are making progress in resolving these matters, the period in which they will be resolved is uncertain.

In the interim, ZCL-USA, Inc. is focusing all USA marketing efforts on tank lining products. An independent third party review of the Phoenix System of lining underground tanks, and approval from State authorities, is currently underway. Upon this approval, significant opportunities exist for the widespread adoption of this lining system by major oil and other companies which require tank upgrades. The Devmat 3D Plus System of secondary containment for tank floors in large diameter aboveground tanks is also moving ahead – marketing has been launched and technical training of applicators is ongoing.

ZCL Enviro Systems, Inc. in the Philippines also continues to make progress during its early production stage. UL approval of the Philippines facility is in process and is expected in the near future – this approval will further increase the prospects in their marketplace. Plant expansion is contemplated in light of current demand and anticipated requirements of other customers in the region. While these operations incurred a small loss during this quarter, we expect positive results in future periods as sales increase and production margins improve.

We are excited about the future of ZCL and focused on our core business. As we indicated in our Annual Report, the "new" ZCL has a promising outlook as a technology based company, with products that provide solutions for a wide range of customers' needs for the safe storage of hazardous liquids. We are now entering an exciting phase of revenue and profit growth potential.

Results for the Quarter

As explained in our Annual Report, the financial statements reflect a change in accounting policy and certain changes in presentation. Last year, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes, whereby the liability method of tax allocation is now used in accounting for income taxes. This change has been applied retroactively, and 1998 amounts have been restated accordingly. For reporting purposes, the results of operations and cash flows for the discontinued Distribution operations have been disclosed separately from the continuing liquid storage systems operations, and comparative figures for 1998 have been restated. The Consolidated Statements of Cash Flows reflect the new disclosure of changes in cash and cash equivalents recommended by The Canadian Institute of Chartered Accountants, and replace the Statements of Changes in Financial Position included in the financial statements in prior years.

Net earnings for the quarter of $111,000 are up from earnings of $47,000 in the first quarter last year. Basic net loss per share for the quarter was $0.01 as compared to a loss of $0.03 last year, after adjusting for the costs of the convertible subordinated debenture.

Earnings before amortization and other expenses increased by over 27%, from $1.1 million (17.6% of revenue) in the first quarter last year, to $1.4 million (23.6% of revenue). This increase can be attributed to a decrease in manufacturing and overhead costs, and a change in the product mix during this quarter. Overall tank manufacturing margins continue to increase as we introduce further cost savings and production efficiencies.

General and administration expenses increased to $618,000 in this quarter from $534,000 last year. Professional fees, largely relating to the USA litigation, were higher this year. Net interest expense increased from $162,000 last year to $213,000 this year. While overall general and administration and interest expenses were lower in the first quarter this year, a portion of these expenses were allocated to the discontinued Distribution operations last year.

Cash used in operating activities during the quarter decreased from $2.1 million last year to $1.1 million this year. Cash used in discontinued operations was $141,000 this quarter ($1.4 million last year) as certain accrued costs relating to the discontinued Distribution operations were paid.

Cash used for financing activities increased to $2.4 million in the quarter from $529,000 last year. As indicated in our Annual Report, the Company repaid $1.85 million of the convertible subordinated debenture during this first quarter, plus the make-whole premium on this amount.

Cash flows from investing activities were $1.3 million in the first quarter, as compared to cash used for investing activities of $140,000 last year. During the quarter, $1.5 million was collected from the sale of ZCL Distribution Inc.

Costs relating to the development and start-up of the USA markets continued to be capitalized in the first quarter. Amortization of start-up costs relating to the Philippines operations commenced in the fourth quarter of last year.

Working capital decreased marginally during the quarter, as current assets and liabilities remained at approximately the same levels as at March 31, 1999.

$3.3 million was drawn on the bank operating line of credit at June 30, 1999, as compared to $10.5 million at June 30, 1998 and $1.0 million at March 31, 1999. Long-term debt decreased to $4.4 million, from $5.0 million at June 30, 1998 and $4.6 million at March 31, 1999. Total shareholders' equity of $17.1 million increased from $17.0 million at March 31, 1999, after the earnings and costs of the convertible subordinated debenture for the quarter.

The Company has reviewed all systems, both internal and external, which may be affected by the Year 2000. As reported in our Annual Report, the Company has now largely completed the replacement or upgrade of internal systems which were not Year 2000 compliant. These systems will continue to be monitored and upgraded for any further Year 2000 changes identified and introduced by hardware and software manufacturers over the next few months. Alternative sources of supply are available for most critical materials and services. Any additional costs to be expensed during fiscal year 2000 are not expected to have a material effect on the Company's financial position or operating results. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those relating to the efforts of customers, suppliers, and third parties, will be fully resolved.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three months ended June 30	1999 $ (000's)	1998 $ (000's) (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**4,416**	5,056
Cash paid to suppliers and employees	**(5,214)**	(5,692)
Interest paid	**(182)**	(106)
Income taxes recovered (paid)	**(4)**	108
Cash flows from continuing operations	**(984)**	(634)
Cash flows from discontinued operations	**(141)**	(1,445)
	(1,125)	(2,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(177)**	(175)
Repayment of convertible subordinated debenture	**(1,850)**	
Convertible subordinated debenture costs	**(413)**	(354)
	(2,440)	(529)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of note receivable		550
Collection of proceeds receivable	**1,505**	
Purchase of capital assets	**(89)**	(358)
Cost of other assets	**(212)**	(332)
Business acquisition	**50**	
	1,254	(140)
Increase in bank indebtedness	**2,311**	2,748
Bank indebtedness, beginning of period	**1,021**	7,735
Bank indebtedness, end of period	**3,332**	10,483

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Three months ended June 30	1999 $ (000's)	1998 $ (000's) (restated)
Revenue	**5,726**	6,014
Earnings before the following	**1,350**	1,059
Amortization	**294**	270
General and administration	**618**	534
Operating earnings	**438**	255
Interest	**213**	162
Share of loss from affiliate	**8**	
Earnings before income taxes	**217**	93
Income taxes		
Current	**6**	7
Future	**100**	46
	106	53
Net earnings from continuing operations	**111**	40
Net earnings from discontinued operations		7
Net earnings for the period	**111**	47
Basic net earnings (loss) per share		
From continuing operations	**($0.01)**	($0.01)
Net earnings (loss) for the period	**($0.01)**	($0.03)

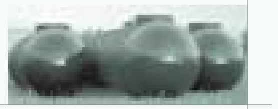
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30 1999 $ (000's)	March 31 1999 $ (000's)
ASSETS		
Current		
Accounts receivable	**5,720**	4,631
Proceeds receivable	**308**	1,813
Inventories	**6,257**	6,175
Prepaid expenses	**356**	175
Future tax asset	**453**	477
	13,094	13,271
Investment in affiliate	**647**	655
Capital assets	**9,083**	9,187
Other assets	**5,111**	5,028
Future tax asset	**1,442**	1,421
	29,377	29,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**3,332**	1,021
Accounts payable and accrued liabilities	**3,867**	4,377
Income taxes payable	**52**	50
Current portion of long-term debt	**714**	711
Convertible subordinated debenture - liability portion	**200**	2,050
	8,165	8,209
Long-term debt	**3,673**	3,853
Government grants	**262**	268
	12,100	12,330
Non-controlling interest	**203**	203
Shareholders' equity		
Capital stock	**20,078**	20,078
Convertible subordinated debenture - equity portion	**6,042**	5,938
Contributed surplus	**45**	45
Deficit	**(9,091)**	(9,032)
	17,074	17,029
	29,377	29,562

V. (Ven) Côté
President & Chief Executive Officer

Tony Barlott
Vice President Finance & Chief Financial Officer



August 16, 1999