2000 SECOND QUARTER REPORT

ZCL COMPOSITES INC.

Protecting The Environment

ZCL COMPOSITES INC.
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Report to Shareholders

This quarter is our sixth consecutive profitable quarter. Over this period we have focused on our core business of manufacturing and marketing liquid storage systems, and have divested the Distribution and Pultrusion business segments. Our technology is driving our competitive advantage – not only by providing innovative products to meet our customers' needs for the safe storage of hazardous liquids, but also by giving us a cost advantage over our competitors.

Our positive results also reflect our success in reducing manufacturing costs and increasing production margins. As part of this program of operational efficiency, our Drummondville, Quebec, plant received ISO 9002 certification in November 1999.

Revenue for the quarter was $7.5 million, approximately the same as the second quarter last year. Revenue for the six-month period was $13.2 million as compared to $13.5 million last year. Domestic sales are up substantially from last year – there were no export sales this year, while sales to the Philippines, prior to the opening of the plant by ZCL Enviro Systems, Inc., were approximately $800,000 in the second quarter (approximately $2.0 million for the six-month period) last year.

The upward trends in the domestic marketplace continued during this quarter, as oil and gas prices along with the industry's confidence were maintained at higher levels. Activity in the downstream sector of the Canadian Petroleum industry remained solid. Upstream activity is anticipated to continue to increase as the year progresses. We are also developing new products for introduction into the Petroleum and other markets during the remainder of this fiscal year.

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 and management remains confident that these matters will be resolved, the period in which they will be determined is uncertain. The high cost of this litigation is the primary reason our earnings are down from last year – this is a necessary investment in our future international growth and profit. Legal costs relating to this litigation, included in general and administration expenses, were approximately $620,000 for the first six months this year as compared to $170,000 last year.

In the interim, USA marketing efforts are focused on tank lining products. The independent third-party review of the Phoenix System of lining underground tanks has been completed and approval from the State of Florida is imminent. Upon this approval, significant opportunities exist for the widespread adoption of this lining system by major oil and other companies that require tank upgrades. Marketing of the Devmat 3D Plus System of secondary containment for tank floors in large diameter aboveground tanks is also moving ahead – the first system sales were made during this quarter – and final approval of this system from the State of Florida is expected shortly. In October 1999, the aboveground lining system was authorized by the Fuels Safety Division of the Technical Standards and Safety Authority of the Province of Ontario.

ZCL Enviro Systems, Inc. in the Philippines made good progress during the quarter. These operations contributed to our earnings, and we expect increased positive results in future periods as sales increase and production margins improve. UL approval of the Philippines facility was received subsequent to the end of the quarter, and will further increase the prospects in their marketplace. As previously indicated, plant expansion is contemplated in light of current demand and anticipated requirements of other customers in the region.

As we reported last quarter, major oil companies are re-evaluating their global programs relating to standardization of specifications for liquid storage systems. We are poised to capitalize on our strengths to meet these global needs.

Results for the Quarter

Net earnings were $277,000 for the quarter ($388,000 for six months) as compared to $431,000 for the second quarter ($478,000 for six months) last year. After adjusting for the costs of the convertible subordinated debenture, basic net earnings per share were $0.01 for the second quarter ($0.01 for six months) this year as compared to earnings of $0.01 for the quarter (loss of $0.02 for six months) last year. Fully diluted earnings per share are anti-dilutive and therefore not presented.

Earnings before amortization and other expenses increased from $1.99 million in the second quarter ($3.05 million or 22.6% of revenue for six months) last year, to $2.03 million this quarter ($3.38 million or 25.6% of revenue for six months this year). This increase can be attributed to a decrease in manufacturing and overhead costs, and a change in the product mix. Overall tank manufacturing margins have been increased or maintained as we introduce further cost savings. Production efficiencies have offset the effect of certain increased costs – some of our raw materials have gone up due to increased oil prices.

General and administration expenses increased to $974,000 in the quarter ($1.6 million for six months) from $538,000 in the second quarter ($1.1 million for six months) last year. Professional fees relating to the USA litigation were significantly higher this year. Net interest expense decreased from $207,000 in the second quarter ($369,000 for six months) last year to $188,000 in the quarter ($401,000 for six months) this year. A portion of general and administration and interest expenses were allocated to discontinued Distribution operations last year.

Subsequent to the end of the quarter, the Belleville, Ontario property was sold for $1.2 million. $500,000 of the proceeds was used to pay down long-term debt, and the balance, net of costs relating to the sale, to reduce bank indebtedness. Occupancy costs for this plant will be eliminated. Tanks for the eastern Canada market are manufactured at the more efficient Drummondville facility. At September 30, 1999, the property was written down to reflect the amount realized on the sale.

Cash used in operating activities during the six month period decreased significantly from $2.0 million last year to $25,000 this year. Cash used in discontinued operations was $226,000 this year ($1.1 million last year) as certain accrued costs relating to the discontinued Distribution operations were paid.

Cash used for financing activities increased to $2.8 million for the six-month period this year from $1.1 million last year. As indicated in our Annual Report, the Company repaid $1.85 million of the convertible subordinated debenture this year, plus the make-whole premium on this amount. Cash flows from investing activities were $1.1 million in the six months this year, as compared to $317,000 last year. This year, $1.8 million was collected from the proceeds receivable from the sale of ZCL Distribution Inc. Last year, $1.65 million was collected on the note receivable from the sale of the Pultrusion division.

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

$2.7 million was drawn on the bank operating line of credit at September 30, 1999, as compared to $10.4 million at September 30, 1998 and $1.0 million at March 31, 1999. Long-term debt decreased to $4.2 million, from $4.9 million at September 30, 1998 and $4.6 million at March 31, 1999. Total shareholders' equity of $17.3 million increased from $17.0 at March 31, 1999, after earnings and the costs of the convertible subordinated debenture for the period.

The Company has reviewed all systems, both internal and external, which may be affected by the Year 2000, and has 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. Year 2000 assurances have been received from suppliers of critical materials and services. Any additional costs to be expensed during this fiscal year 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)

Six months ended September 30	1999 $ (000's)	1998 $ (000's)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**9,921**	10,575
Cash paid to suppliers and employees	**(9,359)**	(11,232)
Interest paid	**(350)**	(262)
Income taxes recovered (paid)	**(11)**	111
Cash flows from continuing operations	**201**	(808)
Cash flows from discontinued operations	**(226)**	(1,148)
	(25)	(1,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(353)**	(350)
Repayment of convertible subordinated debenture	**(1,850)**	
Convertible subordinated debenture costs	**(556)**	(707)
	(2,759)	(1,057)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of note receivable		1,650
Collection of proceeds receivable	**1,813**	
Purchase of capital assets	**(287)**	(525)
Cost of other assets	**(432)**	(808)
Business acquisition	**50**	
	1,144	317
Increase in bank indebtedness	**1,640**	2,696
Bank indebtedness, beginning of the period	**1,021**	7,735
Bank indebtedness, end of the period	**2,661**	10,431

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Period ended September 30	Three months 1999 $ (000's)	Three months 1998 $ (000's)	Six months 1999 $ (000's)	Six months 1998 $ (000's)
Revenue	**7,473**	7,490	**13,199**	13,504
Earnings before the following	**2,031**	1,987	**3,381**	3,046
Amortization	**(295)**	(272)	**(589)**	(542)
General and administration	**(974)**	(538)	**(1,592)**	(1,072)
Operating earnings	**762**	1,177	**1,200**	1,432
Interest	**(188)**	(207)	**(401)**	(369)
Loss on disposal of capital assets	**(127)**		**(127)**	
Share of income from affiliate	**20**		**12**	
Earnings before income taxes	**467**	970	**684**	1,063
Income taxes				
Current	**(5)**	(7)	**(11)**	(14)
Future	**(185)**	(405)	**(285)**	(451)
	(190)	(412)	**(296)**	(465)
Net earnings from continuing operations	**277**	558	**388**	598
Net loss from discontinued operations		(127)		(120)
Net earnings for the period	**277**	431	**388**	478
Basic net earnings (loss) per share				
From continuing operations	**$0.01**	$0.04	**$0.01**	$0.03
Net earnings (loss) for the period	**$0.01**	$0.01	**$0.01**	($0.02)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30 1999 $ (000's)	March 31 1999 $ (000's)
ASSETS		
Current		
Accounts receivable	**7,788**	4,631
Proceeds receivable		1,813
Inventories	**4,957**	6,175
Prepaid expenses	**367**	175
Future tax asset	**35**	477
	13,147	13,271
Investment in affiliate	**667**	655
Capital assets	**8,862**	9,187
Other assets	**5,201**	5,028
Future tax asset	**1,764**	1,421
	29,641	29,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**2,661**	1,021
Accounts payable and accrued liabilities	**4,767**	4,377
Income taxes payable	**45**	50
Current portion of long-term debt	**717**	711
Convertible subordinated debenture – liability portion	**200**	2,050
	8,390	8,209
Long-term debt	**3,494**	3,853
Government grants	**256**	268
	12,140	12,330
Non-controlling interest	**203**	203
Shareholders' equity		
Capital stock	**20,078**	20,078
Convertible subordinated debenture – equity portion	**6,143**	5,938
Contributed surplus	**45**	45
Deficit	**(8,968)**	(9,032)
	17,298	17,029
	29,641	29,562

V. (Ven) Côté
President & Chief Executive Officer

Tony Barlott
Vice President Finance & Chief Financial Officer

November 17, 1999