ZCL®

COMPOSITES INC.

Annual Report 2011

making a lasting difference

Message to Shareholders

I am pleased to write this year's Message to Shareholders. We made tremendous progress in 2011. Early in the year, the ZCL management team established, and the Board supported, our "simplify to grow" strategy. This mission has rooted itself with our people, our customers and the investment community and it has made a difference in the tone and direction of our Company. Changes have been made within the management team and the asset profile in order to provide a "turn of the page." Our balance sheet is in excellent fiscal condition, our profitability is improving and our people are re-focused on activities that create shareholder value.

Our fourth quarter 2011 earnings per share (EPS) of $0.06 per share represents our third profitable quarter in a row. Our 2011 earning marks our strongest annual profitability since 2008. If we had not been impacted by a series of one-time events--cash outlays for litigation, severance, external legal fees--our profitability improvements in 2011 would have been much more visible.

A major component of our "simplify to grow" strategy was the departure from our past stated objective of delivering strong annual revenue growth and an emphasis on the imperative for delivering "profitable" growth. To this end, we overhauled our cash compensation plan to incent our people solely on the metric of profitability. To expedite the return to profitability, we high-graded our customer mix, we changed our procurement strategy for key raw materials, we level-loaded our plants to optimize labour hours, we engaged lean consultants to improve our plant efficiencies, we tightened all discretionary spending and we re-evaluated our financing and tax strategies.

As we have discussed before, we have restructured our business into the three business unit areas where we demonstrate strong product competency--**Petroleum, Water, and Industrial Corrosion**. While we operate under one corporate umbrella entity—ZCL Composites—we continue to market ourselves by leveraging off the strong brand identities of **ZCL, Xerxes, Parabeam, Dualam** and **Troy**. To better support our sales and marketing effort, we introduced a more commercially appealing website www.zcl.com. We believe it clearly defines the present and the future for ZCL Composites and we would encourage you to visit the site.

You have been patient as we have worked through our Strategic Plan. I am very pleased to write that the momentum we gained in the latter part of 2011 has continued into the first quarter of 2012 with all of our plants operating at high levels of activity in our traditionally slow period.

An important objective in the "simplify to grow" strategy was the return of ZCL to a financial position whereby we could "reward you to wait." I am proud to say that the Board of Directors has reinstated our dividend after a two year hiatus. I acknowledge that our one cent per quarter payment is modest, however, it will be reviewed quarterly by the Board with a philosophical balance of fiscal prudence and a sharing of improved results.

On a final note, as we disclosed earlier in the year, for family reasons I have decided to step back from my role as President and CEO. I am pleased that after an extensive search process, the Board has announced Ron Bachmeier, current Chief Operating Officer of ZCL, will be assuming the role of President and CEO effective August 8, 2012. I have had the pleasure of working with Ron for a number of years and believe that his relationships with suppliers, customers, employees and the financial community make him the obvious choice to lead our Company over the long term.

Rod Graham

Management's Discussion and Analysis

INTRODUCTION

ZCL Composites Inc.'s ("ZCL" or the "Company") Management's Discussion and Analysis ("MD&A") of the results of operations, cash flows and financial position as at December 31, 2011, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2011. The statements are available on SEDAR at www.sedar.com or the Company's website at www.zcl.com.

The Canadian Accounting Standards Board ("AcSB") requires all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting periods beginning on or after January 1, 2011, therefore the Company is presenting its consolidated financial statements in accordance with IFRS. These are the Company's first IFRS consolidated financial statements for the year ended December 31, 2011 and IFRS 1: "First-time Adoption of International Financial Reporting Standards" has been applied. All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

Forward-Looking Statements

This MD&A contains forward-looking information based on certain expectations, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For additional information refer to the "Advisory Regarding Forward-Looking Statements" section later in this MD&A.

Non-IFRS Measures

The Company uses both IFRS and non-IFRS measures to make strategic decisions and to set targets. EBITDA, gross profit, net debt, cash from operations, working capital and backlog are non-IFRS measures that are used by the Company. They do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. For additional information refer to the "Non-IFRS Measures" section later in this MD&A.

This MD&A is dated as of March 7, 2012.

CORPORATE PROFILE

ZCL is North America's largest manufacturer and supplier of environmentally friendly fibreglass reinforced plastic ("FRP") underground storage tanks. We also provide custom engineered aboveground FRP and dual-laminate composite storage tanks, piping and lining systems and related products and accessories where corrosion resistance is a high priority. ZCL has six plants in Canada, six in the US and one in The Netherlands.

The Company has been restructured into three business units, Petroleum Products, Water Products and Industrial Corrosion Products and continues to leverage off the strong brand identities of ZCL, Xerxes, Parabeam, Dualam and Troy.

The Petroleum and Water Products business units are components of the Underground Fluid Containment ("Underground") operating segment, use a similar production process, and use the brand identities of ZCL, Xerxes, and Parabeam. Industrial Corrosion Products are included in the Aboveground Fluid Containment ("Aboveground") operating segment and use the brand identities of ZCL Corrosion, Dualam and Troy.

Underground Fluid Containment

Petroleum Products

ZCL is the leading provider of underground fuel storage tanks for the retail service station market in both Canada and the US. ZCL manufactures both single wall, and for secondary containment, double wall FRP tanks. In addition, ZCL operates internationally through technology licensing agreements.

As an alternative to the replacement of underground storage tanks, ZCL has developed the Phoenix System™. This unique Underwriters Laboratories ("UL") and Underwriters Laboratories of Canada ("ULC") listed tank lining system allows in-situ upgrades of a single wall steel or fibreglass tank to a secondary containment system. It is an effective alternative to tank replacement.

A key component of both ZCL's double wall tank and the Phoenix System™ is Parabeam®, a patented, three dimensional glass fabric that is manufactured and distributed from the Company's facility in The Netherlands.

Water Products

ZCL's watertight and easily installed fibreglass tanks are an ideal alternative to the concrete products that have traditionally dominated this market.

Applications for ZCL's underground FRP storage tanks in the Water Products market include onsite wastewater treatment systems, fire protection systems, potable water storage, rainwater retention, large diameter wet wells and lift stations, grease interceptors and storm water retention.

Aboveground Fluid Containment

Industrial Corrosion Products

ZCL manufactures specialty and standard fibreglass tanks, piping and related products and accessories for industrial projects where corrosion and abrasion resistance is a high priority. ZCL's capabilities include the manufacture and installation of custom engineered FRP and dual-laminate composite products for use in the power generation, chemical, chloralkali, pulp and paper, mining and oil sands industries.

The Company expanded its presence in the North American Industrial Corrosion Products market with the acquisition of Dualam Plastics Inc. ("ZCL Dualam") in 2010.

OVERALL PERFORMANCE & OUTLOOK

During 2011, ZCL returned to profitability and significantly reduced its debt. Net income from continuing operations improved to $3.5 million in 2011 from a loss of $16.7 million in 2010, which included an impairment loss of $14.3 million. Revenue of $127.0 million in 2011 was the highest revenue in ZCL's history and the Company has built a strong order backlog. With the significant reduction in debt that resulted from improved operating results and the disposal of non-core assets, the balance sheet has strengthened considerably from December 31, 2010.

Financial Results

Revenue

Revenue for the year ended December 31, 2011 was $127.0 million, up $5.4 million or 5% from $121.6 million for the year ended December 31, 2010. Excluding the negative impact of foreign exchange of $2.8 million, overall revenue was $8.3 million or 7% higher in 2011 than 2010.

The increase in revenue was attributable to both Underground and Aboveground operating segments and to both the Canadian and US operations. Within Underground, higher revenue for Petroleum Products was partially offset by reduced revenue for Water Products.

Gross Profit

Gross profit for the year ended December 31, 2011 was $19.5 million, up $7.8 million or 67% from 2010 gross profit of $11.7 million. Gross margin improved to 15% of revenue in 2011 from 10% a year earlier. The increase resulted from an increase in revenues as well as an increase in profitability on those revenues. Both the Aboveground and Underground operating segments contributed to the increase in gross margin and the Aboveground segment was the largest contributor to the increase in gross margin as a percentage of revenues.

Net income

The Company reported net income of $3.3 million or $0.11 per diluted share for the year ended December 31, 2011, compared to a net loss of $16.8 million or $0.60 per diluted share in the previous year. The turnaround from the 2010 results reflects the execution of the board-endorsed strategic plan.

Net debt

With a number of initiatives in 2011, the Company was successful in reducing net debt by $13.0 million, to $4.6 million at December 31, 2011 from $17.6 million at December 31, 2010. Management considers this a significant reduction, however expects the net debt balance will fluctuate throughout the 2012 year due to the inherent seasonality of the business.

A part of the net debt reduction is due to the successful divestiture of certain non-core assets during 2011. These include the sale of assets from the steel tank division and the 2011 repatriation of the note and debt received on the 2010 sale of the Home Heating Oil Tank ("HHOT") division. In 2011, the Company reduced long term debt by $4.9 million, of which $2.9 million was a result of divesting of non-core assets. The remaining $8.9 million of net debt reduction was attributable to improved operations.

Dividends

With three profitable quarters, the board has re-implemented the quarterly dividend payment. The quarterly dividend declared is $0.01 per share for the shareholders of record as of March 7, 2012 and will be paid on April 2, 2012. This amount will be revisited with a philosophical balance of fiscal prudence and a sharing of improved results.

Continuous Improvements

In early 2011, the ZCL management team established, and the Board supported, our "simplify to grow" strategy. A major component of our "simplify to grow" strategy was the departure from our past stated objective of delivering strong annual revenue growth. Instead we emphasized "profitable" growth. To this end, we overhauled our cash compensation plan to incent our people solely on the metric of EBITDA. To expedite the return to profitability, we high-graded our customer mix, we changed our procurement strategy for key raw materials, we level-loaded our plants to optimize labour hours, we engaged lean consultants to improve our plant efficiencies, we tightened all discretionary spending and we re-evaluated our financing and tax strategies.

During the past year, ZCL has focused and executed the key tenets of the 2011 Strategic Plan:

- Focus on core competencies
  - Management has moved towards clearly identifiable product groups with strong brand identities associated with them
  - Non-core assets identified for sale
- Improve EBITDA as a percentage of revenue and debt
  - Significant EBITDA improvement over 2010
  - Improved gross margins and reduced G&A spending
- Improve balance sheet returns
  - Significant debt reduction through the sale of non-core assets and cash flow from operations
- Reinstitute a dividend payment as our performance continues to improve
  - A quarterly dividend has been declared for payment due to our improved performance and anticipation for continued improvement in 2012
- Improve internal operating and financial reporting with a suite of key performance indicators ("KPIs") with the implementation of the Enterprise Resource Planning ("ERP") system that occurred in 2010
  - Standardized plant metrics and reports developed and used to measure profitability
- Reinforce a program of operational excellence and continuous improvement with a particular focus on cost controls
  - Progress made and ongoing efforts to improve results including RFQ processes with major suppliers, lean manufacturing initiatives undertaken, standardization of training programs
- Maintain a strong safety culture
  - Standardization of safety metrics and safety reporting
  - Focus and attention at a senior management level

Backlog

($millions)	**December 31**
2011	42.2
2010	24.9
% change	70%

The $17.3 million or 70% increase in backlog over the prior year included growth across all product groups and in both the Canadian and US markets. The growth was led by the Aboveground segment (Industrial Corrosion) with an increase in backlog of $12.0 million or 136% over the prior year.

Backlog for the Underground segment (Petroleum and Water Products), increased by $6.2 million or 41% over December 31, 2010 and is generally realized within the following quarter. For the Industrial Corrosion projects, the conversion of backlog to revenue is less predictable because of variable timelines for design, engineering and production.

On a sequential basis, the total backlog declined from $49.6 million at September 30, 2011 due to the traditional seasonal factors affecting ZCL's business.

CEO Succession

After fifteen months of successfully directing the Company, Mr. Rod Graham, President and CEO has decided to step down from this position for family considerations. Mr. Graham accomplished many of the goals he set out to achieve including a focus on improved earnings. As part of that strategy, non-core businesses were exited and non-core assets were disposed of or monetized. In 2011, ZCL returned to profitability, and has established a strong order backlog. In addition, the Company's net debt has been reduced from a high of $20.6 million in the third quarter of 2010 to $4.6 million as at December 31, 2011.

The Board undertook a search process to replace Mr. Graham and has announced that Mr. Ron Bachmeier, the current Chief Operating Officer of ZCL, will assume the role of President and CEO effective August 8, 2012.

Outlook

The plan for 2012 will continue the quest for profitable growth:

- The Company has taken steps to ensure a strong group of companies within the ZCL family with a single culture and mandate;
- Cost control and a continued focus on core assets;
- With the focus on marketing groups, as opposed to operating groups, management has been directed to put forth a concerted effort to create a stronger customer value proposition; and
- Continued attention to safety.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year Ended December 31		
(in thousands of dollars, except per share amounts)	**2011** **$**	2010[2] $	2009[3] $
Operating Results			
Revenue			
Underground Fluid Containment	**101,590**	97,618	98,300
Aboveground Fluid Containment	**25,456**	23,956	4,853
Total revenue	**127,046**	121,574	103,153
Gross profit (*note 1*)	**19,454**	11,658	17,085
% of revenue	***15%***	*10%*	*17%*
General and administration	**9,986**	11,394	7,381
Foreign exchange (gain) loss	**(373)**	496	782
Depreciation and finance expense	**5,589**	6,155	4,137
(Gain) loss on disposal of assets	**(356)**	10	38
Impairment of assets	**-**	14,293	-
Income tax provision	**1,154**	(3,990)	1,112
Net income (loss) from continuing operations	**3,454**	(16,700)	3,635
Net loss from discontinued operations	**(164)**	(149)	(1,463)
Net income (loss)	**3,290**	(16,849)	2,172
Overall earnings (loss) per share from continuing operations			
Basic	**0.12**	(0.59)	0.14
Diluted	**0.12**	(0.59)	0.14
EBITDA (*note 1*)	**10,349**	2,539	9,816
% of revenue	***8%***	*2%*	*10%*
Cash Flows			
Cash from continuing operations (*note 1 & 4*)	**8,417**	891	7,833
Changes in non-cash working capital	**4,782**	(374)	286
Net advance (repayment) of:			
Bank indebtedness	**(8,565)**	6,092	894
Long term debt	**(4,824)**	828	(1,786)
Purchase of capital and intangible assets	**(1,778)**	(2,063)	(3,978)
Disposal of assets	**633**	1,940	-
Business acquisition, net of disposals	**1,336**	(7,868)	-

	As at December 31		
(in thousands of dollars)	**2011** **$**	2010 $	2009 $
Financial Position			
Working capital *(note 1)*	**23,387**	17,816	23,320
Total assets	**113,899**	117,629	102,895
Net debt *(note 1)*	**4,567**	17,591	3,955
Total non-current liabilities	**15,229**	18,025	7,578

Note 1: Gross profit, EBITDA, cash from continuing operations, working capital and net debt are non-IFRS measures and are defined later in the "Non-IFRS Measures".

Note 2: The comparative information has been adjusted to IFRS requirements from the amounts reported under previous GAAP.

Note 3: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

Note 4: Cash from continuing operations excludes changes in non-cash working capital.

RESULTS OF OPERATIONS

Revenue

($000's)	2011	2010	% change
	Twelve Months		
Underground Fluid Containment:			
Petroleum Products	**86,468**	79,764	8%
Water Products	**15,122**	17,852	(15%)
	101,590	97,616	4%
Aboveground Fluid Containment:			
Industrial Corrosion Products	**25,456**	23,958	6%
	127,046	121,574	5%

Note: With the revisions to reportable segments, certain revenue allocations have changed from what was reported in previous MD&As of the Company.

Revenue was up $5.4 million or 5% for the twelve months of 2011 as compared to the twelve months of 2010. Prior to the negative impact of foreign exchange, revenue in 2011 was $8.3 million or 7% higher than the prior year. The changes from 2010 reflect the factors noted below:

Underground Fluid Containment

Underground revenue was $4.0 million or 4% higher for the year ended December 31, 2011 compared with the year ended December 31, 2010.

The increase was attributable to gains in the Petroleum Product lines in Canada and the US. Even with a lower foreign exchange rate, US Petroleum Products revenue increased by $5.7 million or 12% year over year. Sales to both independent service station customers and distributors were up significantly over 2010 on both sides of the border due to increased demand for FRP tanks as well as our Diesel Exhaust Fluid (DEF) tank product.

Canadian Petroleum Products revenue in 2011 increased by $4.1 million or 16% over the year ended December 31, 2010. Petroleum revenue also includes revenue from our international operations which was down year over year. The reduction from 2010 was due in part to lower license fee revenue in 2011 as compared to 2010. As well, third party sales of Parabeam products were lower due to higher internal demands and production issues during the first half of 2011 that have been resolved.

Overall, Water Products revenue was $2.8 million or 15% lower in 2011 compared with 2010. An increase of 11% in Canadian Water Products revenue was more than offset by a significant decrease in US Water Products revenue. The reduction in the US reflected the continued weakness in the US economy, particularly in construction activities. In 2010, Water Products revenue benefited from US government supported economic stimulus infrastructure spending that did not recur in 2011. In addition, foreign exchange had a negative impact on US Water Products revenue due to a weaker US dollar compared with 2010. Prior to a negative impact of foreign exchange, Water Products revenue was down 12% in 2011.

Aboveground Fluid Containment

Aboveground (Industrial Corrosion) revenue of $25.5 million was $1.5 million or 6% higher than 2010, with the increase coming from the ZCL Dualam division. The activity level for this division was much stronger at the end of 2011 generating a backlog of $20.8 million which was 136% higher than the $8.8 million of backlog at the end of 2010.

Gross Profit

($000's)	2011	2010	% change	% of rev 2011
	Twelve Months			
Underground Fluid Containment	**17,356**	13,200	31%	17%
Aboveground Fluid Containment	**2,098**	(1,542)	n/a	8%
	19,454	11,658	67%	15%

For the year ended December 31, 2011, an increase in revenue combined with improved gross margins resulted in a $7.8 million or 67% improvement in gross profit compared to the year ended December 31, 2010. Gross margin improved to 15% from 10% in 2010. The increase reflected the factors discussed below:

Underground Fluid Containment

Underground gross profit increased $4.2 million or 31% in 2011 over the 2010 gross profit. Both US and Canadian operations were responsible for the gross profit increases as the US operations had a very strong fourth quarter. Overall, US Underground gross profit increased by $2.6 million.

A change in sales mix and increased production efficiencies during 2011 had a positive impact on gross profit. However, competitive pricing pressure in certain markets and some upward pressure on raw material prices have continued to dampen gross margins year to date.

Aboveground Fluid Containment

The Aboveground gross profit of $2.1 million or 8% of revenue has improved significantly compared with the loss position in 2010. Although the segment has demonstrated improvement as compared to 2010, management has identified opportunities for continued improvement in the Aboveground operating segment.

General and Administration

($000's)	Twelve Months
2011	9,986
2010	11,394
% change	(12%)

General and administration ("G&A") for the year ended December 31, 2011 decreased $1.4 million or 12% over the same period in 2010. The year over year reduction in G&A reflected a number of cost saving initiatives that were offset by approximately $1.6 million of restructuring and other costs that were incurred by the current management team as a result of a conscious decision to improve the future financial state of the Company. In 2010, approximately $2.0 million in costs were incurred relating to restructuring, integration, and ERP implementation. The restructuring costs that occurred in both 2010 and 2011 are expected to result in reduced G&A spending in 2012.

Foreign Exchange (Gain) Loss

($000's)	Twelve Months
2011	(373)
2010	496

The foreign exchange (gain) loss for each period primarily relates to the combination of fluctuations in the US dollar conversion rate and the US denominated monetary assets and liabilities held by the Company's Canadian operations.

The following tables detail the US dollar and euro conversion rates.

US Dollar Conversion Rates

Year Ended	2011		2010			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	0.99	0.97	1.04	1.02	(5%)	(5%)
Q2	0.97	0.98	1.03	1.05	(6%)	(7%)
Q3	0.98	1.03	1.04	1.03	(6%)	-
Q4	1.02	1.02	1.01	1.00	1%	2%

euro Conversion Rates

Year Ended	2011		2010			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	1.35	1.37	1.44	1.37	(6%)	-
Q2	1.39	1.41	1.31	1.28	6%	10%
Q3	1.39	1.40	1.34	1.40	4%	-
Q4	1.38	1.32	1.38	1.33	-	(1%)

For additional information on the Company's exposure to fluctuations in foreign exchange rates see the "Financial Instruments" section included later in this MD&A.

Depreciation

($000's)	Twelve Months
2011	4,317
2010	4,792
% change	(10%)

The lower depreciation expense resulted from the impairment loss taken on intangible assets relating to the ZCL Dualam division in the third quarter of 2010. This reduction resulted in a lower cost base for depreciation in the current year relative to the prior year.

Disposal of Assets and Discontinued Operations

During 2011, the Company divested of certain assets of the steel tank division resulting in cash proceeds of $0.8 million. In 2010, ZCL disposed of its Home Heating Oil Tank ("HHOT") division for cash proceeds of $0.3 million and a loan with a fair value of $1.0 million payable to the Company over a five year period. The Company repatriated this loan for proceeds of $1.3 million resulting in a gain on disposal of assets of $0.3 million in 2011.

The financial results from the HHOT division and the steel tank division are included in "Discontinued Operations" in this MD&A.

Impairment of goodwill and intangible assets

During the prior year, the Company recorded a $12.7 million write-down of goodwill and a $4.2 million write-down of intangible assets. These assets were initially recorded on the acquisition of ZCL Dualam at the beginning of 2010. This impairment was partially offset by $3.0 million related to an earn-out provision that had been set up as a contingent liability on the ZCL Dualam acquisition that was subsequently de-recognized. In addition to the goodwill and intangible asset impairments a write down of property plant and equipment of $0.4 million was recorded in the prior year relating to non-productive assets held for sale.

Income taxes

Income tax expense for the year ended December 31, 2011 represented 25% of pre-tax income, compared to 19% of pre-tax loss in 2010. The change in tax rate from the prior year is due primarily to the $12.7 million impairment of goodwill in 2010. This impairment creates a permanent difference between tax and accounting net income, therefore did not affect the deferred tax recovery in the prior year.

Other comprehensive income (loss)

The table below details other comprehensive income (loss) before the impact of net income (loss) in the period.

($000's)	Twelve Months
2011	787
2010	(2,421)

Other comprehensive income (loss) for each period resulted from the translation of foreign operations with functional currencies denominated in US dollars and euros. For accounting purposes, assets and liabilities of these foreign operations are translated at the exchange rate in effect on the balance sheet date. The other comprehensive income in the 2011 year was due to the strengthening of the US dollar relative to the Canadian dollar throughout the year, while in 2010, the US dollar weakened relative to the Canadian dollar throughout the year, resulting in a comprehensive loss.

Due to the transition to IFRS in 2010, the translation adjustment for foreign operations changed from a loss of $2.2 million to a loss of $2.4 million.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2011, the Company increased working capital (current assets less current liabilities) by $5.6 million to $23.4 million. The increase is the result of a significant increase in inventory and a significant decrease in bank indebtedness, offset partially by a decrease in accounts receivable and an increase in deferred revenue.

As at December 31, 2011, the Company had cash and cash equivalents of $1.7 million (2010 - $2.1 million) and $nil (2010 - $8.6 million) drawn against its revolving operating credit facility (bank indebtedness). In 2011, the amount drawn against the revolving credit facility reached a quarterly high of $9.5 million as at June 30, 2011. This compared to a high in the prior year of $10.9 million as at September 30, 2010.

Management believes that internally generated cash flows, along with the available revolving operating credit facility, will be sufficient to cover the Company's normal operating and capital expenditures for the foreseeable future.

Credit Arrangements

The Company's operating credit facility is provided by a Canadian chartered bank. The maximum available under this facility is $20.0 million, subject to prescribed margin requirements related to a percentage of accounts receivable and inventory balances at a point in time and reduced by priority claims. The operating facility is due on demand and matures on May 31, 2012.

During the year, the Company elected to convert its Canadian banker's acceptance based term loan to a US based LIBOR loan as permitted by the existing credit facility.

The Company's term loan is provided by a Canadian chartered bank and requires monthly interest payments and quarterly principal repayments of $0.3 million Canadian dollars, with the balance due on maturity on May 31, 2013. The interest charged on the loan is the US dollar based LIBOR plus 250 basis points. The Company is also subject to mandatory repayments of outstanding principal equal to 100% of any net proceeds on asset disposals and insurance proceeds received by the Company. During the twelve months ended December 31, 2011, the Company repaid $2.9 million of principal relating to proceeds from asset sales that occurred at the end of 2010 and the settlement of a note receivable on the disposal of the Home Heating Oil Tank division.

The Company also has long term debt with a different lender of approximately $2.0 million. This term debt requires monthly repayments of $15,100 plus interest, maturing in November 2023. Subsequent to year end, the Company repaid this loan with funds from the term loan, for additional information, refer to note 27 in the consolidated financial statements.

Share Capital

The Company did not issue any shares during the year ended December 31, 2011. In the prior year, through a private placement, the Company issued 550,000 common shares to its President and CEO at price of $2.31 per share for total proceeds of $1.3 million. Also in 2010, in conjunction with the acquisition of Dualam, the Company issued 1,636,490 common shares with a fair value of $5.9 million based on a share price of $3.62.

Cash Flows

($000's)	Twelve Months 2011	2010
Operating activities	13,199	517
Financing activities	(13,389)	7,537
Investing activities	191	(7,991)
Foreign exchange[1]	(223)	(229)
Discontinued operations	(176)	(597)
	(398)	(763)

(1) Foreign exchange loss on cash held in foreign currency.

Operating Activities

The cash flows from operating activities reflects the net impact of i) cash from continuing operations (for additional information see the "Non-GAAP Measures" section later in this MD&A) and ii) changes in non-cash working capital.

Cash from operations, not including changes in non-cash working capital, totalled $8.4 million in 2011, compared to $0.9 million in 2010. The increase in cash flows from operations was primarily due to the improvement in net income from continuing operations from all operating segments with the biggest difference from year to year realized in the aboveground operating segment.

Changes in non-cash working capital totalled $4.8 million in 2011, compared to a negative $0.4 million in 2010. The positive change in 2011 was due mostly to an increase in current liabilities coupled with a reduction of accounts receivable. These categories were partially offset by the large increase in inventory from 2010.

Financing Activities

The cash flow from financing activities in 2011 reflected repayments of bank debt of $8.6 million and repayment of long term debt of $4.8 million. In 2010, bank indebtedness increased $6.1 million and long term debt was increased $0.8 million. In 2010, the issuance of common shares for $1.5 million was offset by the payment of dividends of $0.9 million.

Investing Activities

The cash inflows from investing activities in the year ended December 31, 2011 primarily reflected disposal of property, plant and equipment and other assets for $1.9 million offset with the purchase of property, plant and equipment for $1.8 million. The outflow from investing activity during 2010 included cash consideration paid in conjunction with the acquisition of Dualam, net of cash acquired, of $8.1 million and normal maintenance capital expenditures and the ERP system offset by the proceeds on disposal of non-core assets.

Contractual Obligations

The Company has provided a letter of credit in the amount of $0.5 million US to secure claims in favour of the Commissioner of Insurance for the State of Montana to establish its captive insurance company, Radigan Insurance Inc. ("Radigan"). Radigan provides insurance protection for product warranties, patent infringements, and the general liability coverage for the US operations. The Company has issued a letter of credit for $0.2 million to secure the delivery of product. In addition, cash and cash equivalents of $0.25 million US held by Radigan are restricted for collateral on a contract performance guarantee.

The Company has provided a letter of credit in the amount of $1.0 million to secure a line of credit for the same amount for our US operations. The Company has also provided a letter of credit in the amount of $0.4 million to secure claims for the Company's US workers' compensation program. In the normal course of business, the Company provides letters of credit as collateral for contract performance guarantees. As at December 31, 2011 the issued performance letters of credit totalled less than $0.2 million.

As at December 31, 2011, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled approximately $9.2 million.

The following table details the Company's contractual obligations due over the next five years and thereafter:

($000's)	Long Term Debt	Operating Leases	Total
2012	1,687	2,675	4,362
2013	2,999	2,535	5,534
2014	181	1,892	2,073
2015	181	1,047	1,228
2016	181	687	868
Thereafter	1,045	408	1,453
Total	6,274	9,244	15,518

SUMMARY OF QUARTERLY RESULTS

The table below presents selected financial information for the eight most recent quarters which should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and accompanying notes.

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first half of the year and particularly the first quarter. In addition, the Company is subject to fluctuations in the US to Canadian dollar exchange rate since a significant portion of its revenue is denominated in US dollars. Over the past eight quarters, the US to Canadian dollar conversion rate has ranged from a low of 0.97 in the first quarter of 2011 to a high of 1.05 in the second quarter of 2010.

For the three months ended	**2011**				**2010**			
	Dec 31	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
(in thousands of dollars,					*(restated)*	*(restated)*	*(restated)*	*(restated)*
except per share amounts)	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	37,716	36,352	29,820	23,158	35,028	32,340	30,521	23,685
Net income (loss)								
Continuing operations	1,840	1,892	969	(1,247)	(1,102)	(12,485)	(437)	(2,676)
Discontinued operations	-	-	(181)	17	287	(233)	4	(207)
Total	1,840	1,892	788	(1,230)	(815)	(12,718)	(433)	(2,883)
Basic and diluted earnings (loss) per share								
Continuing operations	0.06	0.07	0.03	(0.04)	(0.04)	(0.44)	(0.02)	(0.09)
Total	0.06	0.07	0.02	(0.04)	(0.03)	(0.45)	(0.02)	(0.10)

(1) The comparative information has been adjusted for IFRS requirements from the amounts reported under previous GAAP.

(2) The discontinued operations are the steel tank division which was sold May 31, 2011 and the Home Heating Oil Tank division, which ZCL sold June 14, 2010 because they were not part of ZCL's core business.

FOURTH QUARTER RESULTS

Selected Financial Information

	Fourth Quarter Ended December 31	
(in thousands of dollars,	**2011**	**2010**[2]
except per share amounts)	**$**	**$**
Operating Results		
Revenue		
Underground fluid containment	**29,670**	29,261
Aboveground fluid containment	**8,046**	5,767
Total Revenue	**37,716**	35,028
Gross profit (*note 1*)	**6,188**	2,783
% of revenue	***16%***	*8%*
General and administration	**2,120**	2,698
Foreign exchange loss	**16**	282
Depreciation and finance expense	**1,468**	1,457
Loss on disposal of assets	**16**	-
Impairment of assets	**-**	547
Income tax expense (recovery)	**728**	(1,099)
Net income (loss) from continuing operations	**1,840**	(1,102)
Net loss from discontinued operations	**-**	287
Net income (loss)	**1,840**	(815)
Overall earnings (loss) per share		
Basic	**0.06**	(0.03)
Diluted	**0.06**	(0.03)
EBITDA (*note 1*)	**4,172**	537
% of revenue	***11%***	*2%*
Cash Flows		
Cash from continuing operations (*note 1 & 3*)	**4,011**	435
Changes in non-cash working capital	**4,926**	1,209
Net advance (repayment) of:		
Bank indebtedness	**(8,924)**	238
Long term debt	**(763)**	(3,666)
Purchase of capital and intangible assets	**(503)**	(157)
Disposal of assets	**-**	1,550

Note 1: Gross profit, EBITDA, and cash from continuing operations are non-IFRS measures and are defined later in the MD&A under "Non-IFRS Measures".
Note 2: The comparative information has been adjusted to IFRS requirements from the amounts reported under previous GAAP.
Note 3: Cash from continuing operations excludes changes in non-cash working capital..

Overall Fourth Quarter Performance

The net income in the fourth quarter of 2011 was $1.8 million or $0.06 per diluted share, compared to a net loss of $0.8 million or $0.03 per diluted share in the fourth quarter of 2010. The increase in earnings reflected higher revenues, a significant improvement in gross profit and a reduction in G&A, finance and other expenses, when compared to the same quarter in 2010.

The factors impacting the fourth quarter of 2011 were generally consistent with those impacting the full year 2011 as previously discussed in this MD&A.

Revenue

	Fourth Quarter		
($000's)	**2011**	**2010**	**% chang**
Underground Fluid Containment			
Petroleum Products	**25,020**	23,754	5%
Water Products	**4,650**	5,507	(16%)
	29,670	29,261	1%
Aboveground Fluid Containment			
Industrial Corrosion Products	**8,046**	5,767	40%
	37,716	35,028	8%

Underground Fluid Containment

Overall, revenue from the Underground segment was relatively flat as compared to the same quarter in 2010. The $1.2 million or 5% increase in Petroleum Products revenue in the fourth quarter of 2011 as compared to the fourth quarter of 2010 was attributable to a comparable increase in revenue from both US and Canadian Petroleum Product sales. The 10% increase from US operations was primarily driven by increases in sales to independent retailers which were up by $2.1 million over the fourth quarter of 2010. These were partially offset by sales to other US customers, which were down by approximately $1.7 million. The increase in Canada was attributable mainly to major oil customers.

Revenue from the international operations was down $0.9 million due primarily to lower licensee related revenue when compared to the fourth quarter of 2010.

Although Water Product sales were up slightly in Canada, overall revenue was $4.7 million, down $0.9 million or 16% from the same period in 2010. The continued weakness in the US construction market has resulted in the decline in revenues when compared to the same period of 2010, where US government supported economic stimulus infrastructure spending buoyed Water Product sales.

Aboveground Fluid Containment

Revenue for the fourth quarter of 2011 was $8.0 million, up $2.2 million or 40% compared to the fourth quarter of 2010. The increase from 2010 predominately reflected an increase in revenue of $3.2 million for the ZCL Dualam operation, compared with the same quarter in 2010. The backlog in the Industrial Corrosion division is significantly higher at December 31, 2011 than a year earlier, and although certain of the projects are longer term in nature, the increased revenue reflects the strengthening demand for Industrial Corrosion Products.

Gross Profit

	Fourth Quarter			
($000's)	**2011**	**2010**	**% change**	**% of rev 2011**
Underground Fluid Containment	**5,399**	3,433	57%	18%
Aboveground Fluid Containment	**789**	(650)	n/a	10%
	6,188	2,783	122%	16%

The increase of $3.4 million or 122% in gross profit over the same period in 2010 reflect the factors discussed below:

Underground Fluid Containment

Gross profit from the Underground segment of $5.4 million or 18% of revenue was an increase of $2.0 million or 57% in the fourth quarter of 2011 as compared to the fourth quarter of 2010. The increase was a result of higher revenues earned in the fourth quarter of 2011 along with improved profits as a percentage of revenue as compared to the same period in 2010. US Underground Fluid Containment drove a significant portion of the increase in gross margin with improved profitability on sales to independent service station operators.

Aboveground Fluid Containment

The Aboveground (Industrial Corrosion) gross profit of $0.8 million is a $1.5 million improvement over the negative gross profit in the fourth quarter of 2010. The improvement occurred in both the traditional ZCL Corrosion operations and the ZCL Dualam operations and is the result of a continued focus on cost reduction and production efficiencies.

Despite the gain over the prior period, there continues to be lower margin orders taken in prior quarters that are still in work in progress and backlog.

General and Administration

($000's)	Fourth Quarter
2011	2,120
2010	2,698
% change	(21%)

The fourth quarter of 2011 saw a reduction of $0.6 million or 21% in general and administration ("G&A") over the same quarter of 2010. The reduction primarily related to cost saving initiatives that occurred throughout 2011. G&A costs were 6% of revenue in the fourth quarter of 2011 compared to 8% in the same quarter of 2010.

Foreign Exchange Loss

($000's)	Fourth Quarter
2011	16
2010	282

The foreign exchange loss for each period primarily relates to the combination of fluctuations in the US dollar conversion rate and the US denominated monetary assets and liabilities held by the Company's Canadian operations.

The table below details the US dollar and euro conversion rates.

Fourth Quarter	2011		2010			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
USD	1.02	1.02	1.01	1.00	1%	2%
euro	1.38	1.32	1.38	1.33	-	(1%)

For additional information on the Company's exposure to fluctuations in foreign exchange rates see the "Financial Instruments" section included later in this MD&A.

Depreciation

($000's)	Fourth Quarter
2011	1,212
2010	1,148
% change	6%

The 2011 depreciation expense was relatively consistent with the prior quarter of 2010.

Income taxes

Income tax expense for the three months ended December 31, 2011 represented 28% of pre-tax income, compared to 50% of pre-tax loss in the fourth quarter of 2010. The 50% effective tax rate of 2012 reflected some additional impairment losses that created a permanent difference between tax and accounting net loss therefore it did not affect the deferred tax recovery in the prior period.

Other Comprehensive (Loss)

The table below details other comprehensive loss before the impact of net income (loss) in the period.

($000's)	Fourth Quarter
2011	(789)
2010	(1,422)

Other comprehensive loss for each period resulted from the translation of foreign operations with functional currencies denominated in US dollars and the euro. For accounting purposes, assets and liabilities of these foreign operations are translated at the exchange rate in effect on the balance sheet date.

The other comprehensive loss in the fourth quarter of 2011 was due to the US dollar conversion rate decreasing from 1.03 in the third quarter of 2011 to 1.02 in the fourth quarter of 2011. The euro conversion rate also decreased from 1.40 in the third quarter of 2011 to 1.32 in the fourth quarter of 2011.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of $23.4 million as at December 31, 2011 was an improvement over the $20.7 million at September 30, 2011. Positive cash flows from operations and increases in deferred revenue contributed to the repayment of the bank indebtedness and the improvement in working capital.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure they are appropriately managed. In addition to the discussion below, see note 23 of the Company's December 31, 2011 audited consolidated financial statements for information on the exposure to financial instruments risk.

Foreign Exchange Risk

The Company operates on an international basis and is subject to foreign exchange risk. The most significant risk is the fluctuation of the US dollar in comparison to the Canadian dollar. The tables below provide an indication of ZCL's exposure to changes in the US to Canadian dollar conversion rate as at and for the year ended December 31, 2011.

Balance sheet exposure related to financial assets, net of financial liabilities, at December 31, 2011 was as follows:

(in thousands of US dollars)	$
Foreign operations	777
Domestic operations	(4,421)
Net balance sheet exposure	(3,644)

Operating exposure for the year ended December 31, 2011 was as follows:

(in thousands of US dollars)	$
Sales	82,582
Operating expenses	75,319
Net operating exposure	7,263

Based on the exposures noted above, with other variables unchanged, a 20% decline in the Canadian dollar would have impacted net income for the year ended December 31, 2011 as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	(566)
Net operating exposure of foreign operations	930
Increase in net income	364

Other comprehensive income (loss) would have also increased an additional $0.1 million due to the net balance sheet exposure of self-sustaining operations.

An increase or strengthening of 20% in the Canadian dollar would have had an equal but opposite impact on net income and other comprehensive income.

Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents, restricted cash and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for trade and other accounts receivable are managed through established credit monitoring activities and by obtaining a cash deposit from certain customers with no prior order history with the Company or where the Company determines the customer has a higher level of risk.

The Company has a concentration of customers in the oil and gas sector. The concentration risk is mitigated by the number of customers and by a significant portion of the customers being large international organizations. As at December 31, 2011, no single customer exceeded 10% of the consolidated trade accounts receivable balance.

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of $19.5 million as at December 31, 2011 (December 31, 2010 - $22.1 million). Included in accounts receivable are balances not considered trade receivables of $0.4 million (2010 - $0.6 million) which include various federal and provincial tax refunds and rebates. On a geographic basis as at December 31, 2011, approximately 65% (December 31, 2010 – 59%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 35% (December 31, 2010 – 41%) was due from US customers.

Payment terms are generally net 30 days. As at December 31, 2011, the percentages of trade accounts receivable were as follows: 51% current (December 31, 2010 – 56%), 27% past due 1 to 30 days (December 31, 2010 – 23%), 12% past due 31 to 60 days (December 31, 2010 – 10%), 8% past due 61 to 90 days (December 31, 2010 – 5%) and 2% past due greater than 90 days (December 31, 2010 – 6%).

RISKS AND UNCERTAINTIES

The Company is subject to a number of known and unknown risks, uncertainties and other factors that could cause the Company's actual future results to differ materially from those historically achieved and those reflected in forward-looking statements made by the Company. These factors include, but are not limited to, fluctuations in the level of capital expenditures in the Petroleum Products, Water Products and Industrial Corrosion Products markets; drilling activity and oil and natural gas prices and other factors that affect demand for the Company's products and services; industry competition; the need to effectively integrate acquired businesses; the ability of management to implement the Company's business strategy effectively; political and general economic conditions; the ability to attract and retain key personnel; raw material and labour costs; fluctuations in the US and Canadian dollar exchange rates; accounts receivable risk; the ability to generate capital or maintain liquidity and credit agreements necessary to fund future operations, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form and elsewhere in other documents filed with Canadian provincial securities authorities which are available to the public at www.sedar.com.

Environmental risks

To conduct business operations, the Company owns or leases properties and is subject to environmental risks due to the use of chemicals in the manufacturing process. This risk is limited to exposure post acquisition for properties obtained through the Xerxes and ZCL Dualam acquisitions as the purchase agreements hold the vendors responsible for any environmental issues pre ZCL ownership. With the ZCL Dualam acquisition, phase two assessments were undertaken and, as a result, the Company is aware of environmental liabilities on two of the properties. These properties are in the process of being remediated by the vendor, therefore, no clean-up costs have been accrued in these financial statements.

ZCL manages its environmental risks by appropriately dealing with chemicals and waste material in an environmentally safe manner and in accordance with known regulatory requirements. In addition, the Company has a Safety, Health and Environment Committee that meets regularly to review and monitor related issues, compliance, risks and mitigation strategies. However, there can be no absolute assurance that specific environmental incidents will not impact ZCL operations in the future.

The Company elects to self-insure against risk of environmental contamination at its production facilities as it has determined the risk to be low. The Company is not aware of any unrecorded material environmental exposures other than the items noted above.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements have been prepared following IFRS. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates and assumptions have been made using careful judgments, which in management's opinion, are reasonable and conform to the significant accounting policies summarized in the consolidated financial statements. Actual results may vary from those estimated.

Impairment

The Company assesses impairment at each reporting period by evaluating the circumstances specific to the organization that may lead to an impairment of assets. In addition to the quarterly assessment, the Company also performs an annual impairment test on goodwill and certain intangible assets in accordance with IAS 36 – "Impairment of Assets".

Where indicators of impairment exist, and annually for goodwill and certain intangible assets, the recoverable amount of the asset or group of assets (cash generating units) is compared against the carrying amount. Any excess in the carrying amount over the recoverable amount will be recognized as an impairment loss in the income statement. The recoverable amount is calculated as the higher of the assets' (or group of assets) value in use or fair value less cost to sell. The actual growth rates and other estimates used in the determination of fair values at the time of impairment tests may vary materially from those realized in future periods.

Property, plant and equipment, intangible assets and goodwill

Property, plant and equipment and intangible assets with finite lives are recorded at cost less accumulated amortization. Goodwill and indefinite life intangible assets are recorded at cost. The unamortized balances, or carrying values, are regularly reviewed for recoverability or tested for impairment whenever events or circumstances indicate that these amounts exceed their fair values. The valuation of these assets is based on estimated future net cash flows, taking into account current and future industry and other conditions. An impairment loss would be recognized for the amount that the carrying value exceeds the fair value.

Amortization of property, plant and equipment and intangible assets with finite lives is based on estimates of the useful lives of the assets. The useful lives are estimated, and a method of amortization is selected at the time the assets are initially acquired and then re-evaluated each reporting period.

Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of amortization. The estimates of cash flows used to assess the potential impairment of these assets are subject to measurement uncertainty. A significant change in these estimates and judgments could result in a material change to amortization expense or impairment charges.

Allowance for Doubtful Accounts

The Company's accounts receivable balance is a significant portion of overall assets. Credit is spread among many customers and the Company has not experienced significant accounts receivable collection problems in the past. The Company performs ongoing credit evaluations and maintains allowances for doubtful accounts, based on the assessment of individual customer receivable balances, credit information, past collection history and the overall financial strength of customers. A change in these factors could impact the estimated allowance and the provision for bad debts recorded in the accounts. The actual collection of accounts receivable and the resulting bad debts may differ from the estimated allowance for doubtful accounts and the difference may be material.

Self-insured Liabilities

The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims and patent infringement through Radigan Insurance Inc., its captive insurance company. The provision for self-insured liabilities includes estimates of the costs of reported and expected claims based on estimates of loss using assumptions determined by a certified loss reserve analyst. The actual costs of claims may vary from those estimates, and the difference may be material. As at December 31, 2011, the Company has set aside restricted cash of $0.3 million US ($0.3 million Canadian) for such claims.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to thirty years for corrosion, if the products are properly installed and are used solely for storage of listed liquids. The Company markets a storage system under the Prezerver™ trademark that carries an enhanced protection program. In Canada, the Prezerver system includes an enhanced ten year limited warranty covering product replacement, third party pollution protection, site clean-up and defence costs up to the limits allowed under the warranty. Until December 1, 2006, the Canadian Prezerver program was covered by insurance underwritten by a major international insurer. Effective, December 1, 2006, the Company formed its own insurance captive to insure the Prezerver program. No claims have been registered since the Prezerver program's inception in 1996. Additionally, a number of component materials and parts are similarly warranted by their manufacturers, thereby reducing the Company's exposure to warranty claims.

The Company also began marketing the Prezerver system in the US in 2008. Under this program, the customer is offered a ten year non-cancellable master program of insurance by a third party insurance provider which covers third party property damage, onsite cleanup of pollution conditions, defence costs and product warranty/replacement up to limits allowed under the policy. The tank warranty/replacement portion of the coverage is reinsured by the third party insurance provider to ZCL's insurance captive.

The Company provides for warranty obligations based on a review of products sold and historical warranty costs experienced. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur. While the Company maintains high quality standards and has a limited history of liability or warranty problems under its standard warranties or Prezerver programs, there can be no guarantee that the warranty provision recorded, self-insurance provided by ZCL's captive insurance company or third party insurance will be sufficient to cover all potential claims. The actual costs of warranties may vary from those estimated, and the difference may be material.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

As discussed in the introduction to the MD&A, these are the Company's first annual consolidated financial statements for the year ended December 31, 2011 prepared in accordance with IFRS.

The accounting policies in note 3 to the consolidated financial statements have been applied in preparing the year ended December 31, 2011 statement of income (loss) and the comparative information for the year ended December 31, 2010. The policies were also used in the preparation of the balance sheets presented for the opening IFRS balance sheet date on the transition date of January 1, 2010, the year ended December 31, 2010 and the year ended December 31, 2011.

IFRS 1: "First time adoption of IFRS"

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain mandatory exemptions and optional exemptions are applied. The Company elected to apply the following IFRS 1 optional exemptions. Readers should refer to note 28 of the consolidated financial statements for a full reconciliation of the effects the transition to IFRS had on the comparative statements of comprehensive income (loss) and balance sheets.

a) IFRS 3: "Business Combinations" has not been applied retrospectively to acquisitions of subsidiaries prior to the transition date of IFRS.
b) Certain parcels of land grouped in with property, plant and equipment have been adjusted to their fair value based on land valuations performed by external land valuators. The Company has elected to regard those fair values as deemed cost at the date of transition to IFRS.
c) The Company has elected not to reassess arrangements under IFRS Interpretations Committee ("IFRIC") 4: "Determining Whether an Arrangement Contains a Lease" that were assessed under previous GAAP in the same manner as required by IFRIC 4 and to apply the transitional provision in IFRIC 4 to those that were not.
d) IFRS 2: "Share-based Payments" has not been applied retrospectively for stock options that had vested prior to the transition date.

SUMMARY OF SIGNIFICANT IFRS RE-MEASUREMENTS

With the transition to IFRS on January 1, 2010, certain balances were re-measured according to the guidance provided in IFRS that resulted in significant differences from the measurements previously reported under previous GAAP. Discussed below is a summary of the significant IFRS re-measurements and their impact on the January 1, 2010 and December 31, 2010 balance sheets relative to previous GAAP.

Impairment of intangible assets

As previously disclosed in the September 30, 2010 and December 31, 2010 consolidated financial statements and MD&A, the Company conducted an impairment test on the intangible assets relating to ZCL Dualam. Using the guidance available under previous GAAP, the customer relationships, trade names and non-patented technology intangible assets were not considered impaired as their expected undiscounted cash-flows (recoverability test) exceeded their carrying value as at September 30, 2010.

The impairment test under IFRS requires the use of a discounted cash flow forecast in order to estimate the fair value of the intangible assets. This fair value is then compared to the carrying amount as at September 30, 2010. The IFRS impairment test resulted in an additional impairment loss of $4.1 million. Subsequent to September 30, 2010, the lower carrying amount resulted in reduced depreciation expense on the impaired intangible assets of $0.1 million for the remainder of the year ended December 31, 2010. The net reduction of the carrying amount of intangible assets as at December 31, 2010 was $3.9 million due to the changes in the impairment testing under IFRS.

Property, plant and equipment

As discussed in the "Changes in Significant Accounting Policies" section of the MD&A, upon transition to IFRS, the Company elected to use the fair value of certain parcels of land as their deemed cost as allowed under the IFRS 1. This resulted in an increase of $2.7 million of property, plant and equipment with the corresponding adjustment recorded in opening equity as at the transition date.

Translation of foreign operations

Under previous GAAP, the Parabeam Industries BV, Radigan Insurance Inc. and certain US based subsidiaries of ZCL Dualam were considered to be integrated foreign operations within the ZCL Composites consolidated group of companies. The financial statements of these foreign based subsidiaries were translated using the temporal method, which required the translation of monetary assets and liabilities of the foreign subsidiaries to Canadian dollars using the closing rate on each reporting date. The non-monetary assets and liabilities of these subsidiaries were carried at their historical Canadian dollar cost and not translated to the reporting currency (Canadian dollars) at the current rates.

Under IFRS, the functional currency of these entities was assessed using the guidance available in IAS 21: "The Effects of Changes in Foreign Exchange Rates". The functional currencies of these entities was determined to be the domestic currencies, therefore the financial statements of these subsidiaries are now being translated using the current rate method. Under the current rate method all assets and liabilities of the subsidiaries are translated at the closing rate in effect at the reporting period.

The primary impact of changing from the temporal rate method to the current rate method for these entities was the impact on the carrying amount of property, plant and equipment in Canadian dollars and the cumulative translation adjustment which forms part of other comprehensive income. As at January 1, 2010, the impact was not significant, however as at December 31, 2010, the impact of this change resulted in a reduction in the carrying value of property, plant and equipment of $0.2 million and an increase in the accumulated other comprehensive loss of $0.3 million when compared to the December 31, 2010 consolidated financial statements released under previous GAAP.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of ZCL on a timely basis so that appropriate decisions can be made regarding public disclosure. In accordance with National Instrument 52-109: "Certification of Disclosure in Issuers' Annual and Interim Filings", the CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as of the period ended December 31, 2011. Based on that evaluation, the CEO and CFO have concluded that the disclosure control procedures are effective and provide reasonable assurance that: (a) information required to be disclosed by the Company in its quarterly interim filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (b) material information regarding the Company is accumulated and communicated to management, including its CEO and CFO in a timely manner.

Internal Controls over Financial Reporting ("ICFR")

Management has evaluated whether there were changes in the Company's ICFR during the period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified. There were also no material weaknesses relating to the design of ICFR at December 31, 2011 and no limitations on the scope of design of ICFRs.

While management of the Company have evaluated the effectiveness of disclosure controls and procedures and ICFR as of December 31, 2011 and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and ICFR may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute assurance that the objectives of the control system are met.

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for $30,000 (2010 - $82,000) for the year ended December 31, 2011, included in manufacturing and selling costs in the consolidated statements of income or inventories were provided by a corporation whose Chairman and CEO is a director of the Company. The transactions were incurred in the normal course of operations and recorded at the exchange amount being normal commercial rates for the products. Accounts payable and accrued liabilities at December 31, 2011 included $nil (2010 - $13,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

OUTSTANDING SHARE DATA

As at March 7, 2012, there were 28,802,020 common shares and 2,207,498 share options outstanding. Of the options outstanding, 747,469 are currently exercisable into common shares.

On January 4, 2010, 1,078,948 preferred shares with a redemption value of $5.1 million were issued by a subsidiary of the Company. These preferred shares have a term of five years and a dividend rate of 4.4%. In years two to five, these preferred shares are redeemable by the Company for cash at $4.75 per share or exchangeable by the vendor for common shares on a one to one basis.

OTHER INFORMATION

Additional information relating to the Company, including the Annual Information Form (AIF), is filed on SEDAR at www.sedar.com.

NON-IFRS MEASURES

The Company uses both IFRS and non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS measures provide useful supplemental information to investors. EBITDA, gross profit, cash from operations, working capital, net debt and backlog are measures used by the Company that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Included below are tables calculating or reconciling these non-IFRS measures where applicable.

Gross profit is defined as revenue less manufacturing and selling costs. Manufacturing and selling costs include direct materials and labour, variable and fixed manufacturing overhead and marketing and selling expenses and exclude depreciation, general and administration and financing expenses.

EBITDA is defined as income from continuing operations before finance expense, income taxes, share-based payments, depreciation on property, plant and equipment deferred development costs and intangible assets, gains or losses on sale of property, plant and equipment, impairment of assets, and costs not expected to recur on a regular basis. Readers are cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with IFRS.

Cash from continuing operations is defined as cash flows from operating activities before changes in non-cash working capital. Working capital is defined as current assets less current liabilities. Net debt is defined as long term debt, including current portion, plus bank indebtedness, less cash and cash equivalents. Preferred shares are not a component of net debt. Backlog is defined as the total value of orders that have not yet been included in revenue and that management has assessed as having a high certainty of being performed because of the existence of a contract or purchase order specifying the scope, value and timing of an order.

RECONCILIATION OF NON-IFRS MEASURES

The following table presents the calculation of gross profit and gross profit as a percentage of revenue.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2011	**2010** *(restated)*	**2011**	**2010** *(restated)*	**2009** *(Note 1)*
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Revenue	**37,716**	35,028	**127,046**	121,574	103,153
Manufacturing and selling costs	**31,528**	32,245	**107,592**	109,916	86,068
Gross profit	**6,188**	2,783	**19,454**	11,658	17,085
Gross profit as a % of revenue	**16%**	8%	**15%**	10%	17%

Note 1: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

The following table reconciles net income (loss) from continuing operations in accordance with IFRS to EBITDA.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2011	**2010** *(restated)*	**2011**	**2010** *(restated)*	**2009** *(Note 1)*
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income (loss) from continuing operations	**1,840**	(1,102)	**3,454**	(16,700)	3,635
Adjustments:					
Depreciation	**1,212**	1,149	**4,317**	4,792	4,137
Finance expense	**256**	309	**1,272**	1,363	501
Income tax expense (recovery)	**728**	(1,099)	**1,154**	(3,990)	1,112
Stock-based compensation	**120**	173	**508**	791	393
(Gain) loss on disposal of assets	**16**	-	**(356)**	10	38
Impairment of assets	**-**	547	**-**	14,293	-
Restructuring, integration and ERP costs[2]	**-**	560	**-**	1,980	-
EBITDA	**4,172**	537	**10,349**	2,539	9,816
% of revenue	**11%**	2%	**8%**	2%	10%

Note 1: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

Note 2: Includes costs associated with restructuring and integration activities as well as costs related to the initial implementation of the Company's new ERP system.

The following table presents the calculation of cash from continuing operations.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2011	**2010** *(restated)*	**2011**	**2010** *(restated)*	**2009** *(Note 1)*
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income (loss) from continuing operations	**1,840**	(1,102)	**3,454**	(16,700)	3,635
Add items not affecting cash:					
Depreciation	**1,212**	1,149	**4,317**	4,792	4,137
Future tax expense (recovery)	**748**	(333)	**185**	(1,400)	(385)
Gain (loss) on disposal of assets	**16**	-	**(356)**	10	38
Stock-based compensation expense	**120**	173	**508**	791	393
Impairment of assets	**-**	547	**-**	13,363	-
Other	**75**	1	**309**	35	15
Cash from continuing operations	**4,011**	435	**8,417**	891	7,833

Note 1: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

The following table presents the calculation of working capital.

	As at		
	2011	**2010** *(restated)*	**2009** *(Note 1)*
(in thousands of dollars)	**$**	**$**	**$**
Current assets	**47,873**	47,821	39,993
Current liabilities	**24,486**	30,005	16,673
Working capital	**23,387**	17,816	23,320

Note 1: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

The following table presents the calculation of net debt.

	As at		
	2011	**2010** *(restated)*	**2009** *(Note 1)*
(in thousands of dollars)	**$**	**$**	**$**
Long term debt (including current portion, excluding preferred shares)	**6,274**	11,131	5,346
Bank indebtedness	**-**	8,565	1,477
Less: cash and cash equivalents	**(1,707)**	(2,105)	(2,868)
Net debt	**4,567**	17,591	3,955

Note 1: For comparative periods prior to January 1, 2010 (IFRS transition date), the financial information presented has not been restated to reflect the Company's adoption of IFRS.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's objectives or expectations for revenue and earnings growth, income taxes as a percentage of pre-tax income, business opportunities in the Petroleum Products, Water Products, Industrial Corrosion Products markets, efforts to reduce administrative and production costs, manage production levels, anticipated capital expenditure trends, activity in the petroleum and other industries and markets served by the Company and the sufficiency of cash flows and credit facilities available to cover normal operating and capital expenditures. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the industries the Company serves generally.

These factors include, but are not limited to, fluctuations in the level of capital expenditures in the Petroleum Products, Water Products, and Industrial Corrosion Products markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively, political and economic conditions, the Company's ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US and Canadian dollar exchange rates, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in this document and other documents filed with Canadian provincial securities authorities. These documents are available to the public at www.sedar.com. Unless otherwise indicated, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the reporting currency is in Canadian dollars.

In addition to the factors noted above, management cautions readers that the current economic environment could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve its financial targets. Factors such as continuing economic uncertainty in the US and Canada, tighter lending standards, volatile capital markets, fluctuating commodity prices, and other factors could negatively impact the demand for the Company's products and the Company's ability to grow or sustain revenues and earnings. Fluctuations in the US to Canadian dollar conversion rate also have the potential to impact the Company's revenues and earnings.

The Company believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon.

The forward-looking statements in this report speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

ZCL Composites Inc.
Consolidated Financial Statements and Notes
For the years ended December 31, 2011 and 2010

MANAGEMENT'S REPORT

March 7, 2012

The Annual Report, including the consolidated financial statements and other financial information, is the responsibility of the management of the Company. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 2 to the consolidated financial statements. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by year end, is the responsibility of management. Financial information presented elsewhere in this Annual Report has been prepared by management and is consistent with the information in the consolidated financial statements.

Management is responsible for the establishment and maintenance of systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is accurate and reliable, and that the Company's assets are appropriately accounted for and adequately safeguarded. The internal control system also includes an established business conduct policy that applies to all employees. Management believes the system of internal controls, review procedures, and established policies provide reasonable assurance as to the reliability and relevance of the financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board appoints an Audit Committee consisting of unrelated, non-management directors that meets at least four times each year under a written mandate from the Board. The Audit Committee meets with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities, reviews the consolidated financial statements and the Auditors' Report, including the quality of the accounting principles and significant judgments applied, and examines other auditing and accounting matters. The Committee also recommends the firm of external auditors to be appointed by the shareholders. The independent auditors have full and unrestricted access to the Audit Committee, with and without management being present. The consolidated financial statements and other financial information have been reviewed by the Audit Committee and approved by the Board of Directors of ZCL Composites Inc.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, Chartered Accountants, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company.

"Rod Graham"
Roderick W. Graham, CFA, MBA
President and
Chief Executive Officer

"Kathy Demuth"
Katherine L. Demuth, CA, CMA, CIA
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ZCL Composites Inc.

We have audited the accompanying consolidated financial statements of ZCL Composites Inc., which comprise the consolidated balance sheets as at December 31, 2011, and 2010, and January 1, 2010, and the consolidated statements of income (loss), comprehensive income (loss), and shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

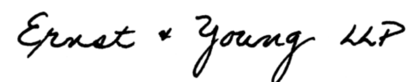
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ZCL Composites Inc. as at December 31, 2011, and 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards.

Edmonton, Canada
March 7, 2012



Chartered accountants

Consolidated Balance Sheets

As at (in thousands of dollars)	December 31, 2011 $	December 31, 2010 (Restated) *[note 28]* $	January 1, 2010 (Restated) *[note 28]* $
ASSETS			
Current			
Cash and cash equivalents	**1,707**	2,105	2,868
Accounts receivable *[note 23]*	**19,908**	22,722	14,228
Inventories *[note 5]*	**24,271**	18,759	19,943
Income taxes recoverable	**1,082**	3,311	1,650
Prepaid expenses	**905**	924	963
	47,873	47,821	39,652
Property, plant and equipment *[note 7]*	**26,133**	26,921	25,933
Assets held for sale *[note 7]*	**952**	946	—
Intangible assets *[note 8]*	**7,979**	10,116	9,481
Goodwill *[note 4]*	**30,263**	29,820	28,997
Restricted cash	**255**	250	262
Other assets	**444**	1,755	458
TOTAL ASSETS	**113,899**	117,629	104,783
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness *[note 9]*	**—**	8,565	1,477
Accounts payable and accrued liabilities	**15,435**	15,589	10,380
Income taxes payable	**797**	27	8
Deferred revenue	**5,325**	1,935	1,805
Current portion of provisions *[note 10]*	**1,185**	434	286
Current portion of long term debt *[note 11]*	**1,687**	3,398	2,343
Current portion of preferred shares *[note 12]*	**57**	57	—
	24,486	30,005	16,299
Deferred tax liabilities *[note 17]*	**5,068**	4,848	4,431
Long term portion of provisions *[note 10]*	**449**	319	374
Long term debt *[note 11]*	**4,587**	7,733	3,003
Preferred shares *[note 12]*	**5,125**	5,125	—
TOTAL LIABILITIES	**39,715**	48,030	24,107
Commitments *[note 13]*			
Shareholders' equity			
Share capital *[note 15]*	**69,862**	69,862	62,395
Contributed surplus *[note 16a]*	**2,177**	1,669	943
Equity component of preferred shares *[note 12]*	**845**	845	—
Accumulated other comprehensive loss	**(7,073)**	(7,860)	(5,439)
Retained earnings	**8,373**	5,083	22,777
TOTAL SHAREHOLDERS’ EQUITY	**74,184**	69,599	80,676
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**113,899**	117,629	104,783

See accompanying notes

On behalf of the Board: *Director* *Director*

Consolidated Statements of Income (Loss)

For the years ended December 31, 2011 and 2010

(in thousands of dollars, except per share amounts)	2011 $	2010 (Restated) *[note 28]* $
Revenue	**127,046**	121,574
Manufacturing and selling costs *[note 6]*	**107,592**	109,916
Gross profit	**19,454**	11,658
General and administration	**9,986**	11,394
Foreign exchange (gain) loss	**(373)**	496
Depreciation *[notes 7 and 8]*	**4,317**	4,792
Finance expense *[note 21]*	**1,272**	1,363
(Gain) loss on disposal of assets	**(356)**	10
Impairment of assets *[note 4]*	**—**	14,293
	14,846	32,348
Income (loss) before income taxes	**4,608**	(20,690)
Income tax expense (recovery) *[note 17]*		
Current	**969**	(1,660)
Deferred	**185**	(2,330)
	1,154	(3,990)
Net income (loss) from continuing operations	**3,454**	(16,700)
Net loss from discontinued operations *[note 18]*	**(164)**	(149)
Net income (loss)	**3,290**	(16,849)
Income (loss) per share from continuing operations *[note 19]*		
Basic	**$0.12**	($0.59)
Diluted	**$0.12**	($0.59)
Loss per share from discontinued operations *[note 19]*		
Basic	**($0.01)**	($0.01)
Diluted	**($0.01)**	($0.01)
Income (loss) per share *[note 19]*		
Basic	**$0.11**	($0.60)
Diluted	**$0.11**	($0.60)

See accompanying notes

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2011 and 2010

(in thousands of dollars)	2011 $	2010 (Restated) *[note 28]* $
Net income (loss)	**3,290**	(16,849)
Translation of foreign operations	**787**	(2,421)
Comprehensive income (loss)	**4,077**	(19,270)

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2011 and 2010

(in thousands)	Common Shares \#	Share Capital $	Contributed Surplus $	Equity Component of Pref. Shares $	Accumulated Other Comprehensive Loss $	Retained Earnings $	Total $
(Restated) *[note 28]*							
Balance, December 31, 2010	**28,802**	**69,862**	**1,669**	**845**	**(7,860)**	**5,083**	**69,599**
Share-based payments *[note 16a]*	—	—	**508**	—	—	—	**508**
Translation of foreign operations	—	—	—	—	**787**	—	**787**
Net income	—	—	—	—	—	**3,290**	**3,290**
Balance, December 31, 2011	**28,802**	**69,862**	**2,177**	**845**	**(7,073)**	**8,373**	**74,184**
(Restated) *[note 28]*							
Balance, January 1, 2010	26,545	62,395	943	—	(5,439)	22,777	80,676
Share-based payments *[note 16a]*	—	—	791	—	—	—	791
Shares issued on exercise of options *[note 16a]*	70	206	—	—	—	—	206
Reclassification of fair value of stock options previously expensed *[note 15]*	—	65	(65)	—	—	—	—
Shares issued related to business acquisition *[notes 4 and 15]*	1,637	5,926	—	—	—	—	5,926
Shares issued through private placement *[note 15]*	550	1,270	—	—	—	—	1,270
Translation of foreign operations	—	—	—	—	(2,421)	—	(2,421)
Preferred shares *[note 12]*	—	—	—	845	—	—	845
Dividends paid *[note 14]*	—	—	—	—	—	(845)	(845)
Net loss	—	—	—	—	—	(16,849)	(16,849)
Balance, December 31, 2010	28,802	69,862	1,669	845	(7,860)	5,083	69,599

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(in thousands of dollars)	2011 $	2010 (Restated) *[note 28]* $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) from continuing operations	**3,454**	(16,700)
Add (deduct) items not affecting cash:		
Depreciation *[notes 7 and 8]*	**4,317**	4,792
Deferred tax expense (recovery)	**185**	(2,330)
(Gain) loss on disposal of assets	**(356)**	10
Share-based compensation expense *[note 16]*	**508**	791
Impairment of assets	—	14,293
Other	**309**	35
	8,417	891
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**2,825**	(1,959)
(Increase) decrease in inventories	**(5,345)**	2,295
Decrease in prepaid expenses	**31**	130
Increase in accounts payable, accrued liabilities and provisions	**1,025**	714
Increase (decrease) in deferred revenue	**3,403**	(314)
Increase (decrease) in income taxes payable	**2,843**	(1,240)
	4,782	(374)
Cash flows from operating activities	**13,199**	517
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares on the exercise of stock options, net of issuance costs *[note 15]*	—	192
Issue of common shares on private placement *[note 15]*	—	1,270
Net (repayment) advance of bank indebtedness	**(8,565)**	6,092
Advance on long term debt, net of financing charges	—	9,964
Repayment of long term debt	**(4,824)**	(9,136)
Dividends paid *[note 14]*	—	(845)
Cash flows (used in) from financing activities	**(13,389)**	7,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(1,753)**	(1,355)
Disposal of property, plant and equipment	**633**	1,940
Purchase of intangible assets	**(25)**	(708)
Business acquisitions, net of cash acquired *[note 22b]*	—	(8,120)
Disposal of other assets *[note 18]*	**1,336**	252
Cash flows from (used in) investing activities	**191**	(7,991)
Foreign exchange loss on cash held in foreign currency	**(223)**	(229)
Cash used in discontinued operations *[note 18]*	**(176)**	(597)
Decrease in cash and cash equivalents	**(398)**	(763)
Cash and cash equivalents, beginning of the year	**2,105**	2,868
Cash and cash equivalents, end of the year	**1,707**	2,105

See accompanying notes

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

1. CORPORATE INFORMATION

ZCL Composites Inc. (the “Company”) is a public company incorporated and domiciled in Canada and its common stock trades on the Toronto Stock Exchange. The address of the Company’s registered office is 1420 Parsons Road S.W., Edmonton, Alberta, Canada, T6X 1M5. The Company and its subsidiaries (the “Company”) are principally involved in the manufacturing and distribution of liquid storage systems, including fibreglass underground and aboveground storage tanks, dual-laminate composite tanks and related products and accessories. The Company also produces and sells fibreglass lining systems and three dimensional glass fabric material.

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a historical cost basis except for the following material items presented on the consolidated balance sheets:

- Liabilities for cash-settled share-based payment arrangements under the Company’s Stock Appreciation Rights Plan and Restricted Share Unit Plan are measured at fair value.

The consolidated financial statements are reported in Canadian dollars which is the functional currency of the reporting entity, ZCL Composites Inc.

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These are the Company’s first IFRS consolidated financial statements and IFRS 1: “First-time Adoption of International Financial Reporting Standards” has been applied.

Note 28 explains how the transition to IFRS has affected the reported consolidated balance sheets and statement of loss for the comparative periods. The note includes reconciliations of equity and total comprehensive loss for comparative periods and a reconciliation of equity at the date of transition from previous generally accepted accounting principles (“GAAP”) to IFRS. The note also includes a listing of the exemptions taken by the Company under IFRS 1.

The consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2012.

Basis of Consolidation

The consolidated financial statements of the Company include the accounts of ZCL Composites Inc. and its subsidiaries including Parabeam Industries BV, Radigan Insurance Inc., ZCL International SRL (formerly VRB & Associates SRL), ZCL Dualam Inc. formerly Dualam Plastics Inc. (“ZCL Dualam”) and Xerxes Corporation (“Xerxes”).

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost over the fair values of the identifiable net assets acquired is recognized as goodwill. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and highly liquid investments with original maturities of three months or less. Cash equivalents are invested in money market funds and are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost determined on an average cost basis.
- Finished goods and work in progress: cost of direct materials, labour and a proportionate share of variable and fixed production overhead expenses allocated based on a normal operating capacity for direct labour hours.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing property, plant and equipment as well as borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals or major inspections are required, the Company recognizes such costs as individual components of an asset and depreciates them according to their specific useful lives.

Land is not depreciated and leasehold improvements are depreciated using the straight-line method over the term of the lease. Depreciation for the remainder of property, plant and equipment is calculated using the declining balance method using the following rates:

Buildings	4%
Land improvements	10%
Manufacturing equipment	10%
Office equipment	20%
Automotive equipment	30%

An item of property, plant and equipment and any significant component initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition is included in the consolidated statements of income (loss) when the asset is derecognized. The useful lives, residual values and methods of depreciation of property, plant and equipment are reviewed at each year end and adjusted prospectively, if appropriate.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill or intangible assets not ready for use, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into Cash-generating Units ("CGUs"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

CGUs are the smallest identifiable group of assets that generate cash flows that are independent of the cash flows of other groups of assets. The determination of CGUs was based on management's judgments in regard to the geographic location of operating divisions, product groups and shared infrastructure.

Intangible assets

Internally developed intangible assets – deferred development costs:
Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Company are recognized as intangible assets when the following criteria are demonstrated:

- The technical feasibility of completing the intangible asset so it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditures on research activities are recognized as an expense in the period in which it is incurred.

The amount initially recognized for internally developed intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally developed intangible asset can be recognized, development expenditures are recognized as an expense in the period in which it is incurred. Subsequent to initial recognition, internally developed intangible assets are reported at cost less accumulated depreciation and impairment losses, if any. Internally developed software is depreciated over the expected life of ten years.

Acquired intangible assets:
Acquired intangible assets include non-contractual customer relationships, brands, licenses, patents, customer backlog, air permits and non-patent technology. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and accumulated impairment losses, if any. The estimated useful lives for the current and comparative periods are as follows:

Non-contractual customer relationships	Estimated life of the relationship (three to ten years)
Brands	Expected life of the brand (ten years)
Licenses	Term of the license agreement (three to nine years)
Patents	Life of the patent (six years)
Air permits	Life of the permit (five years)
Non – patented technology	Expected life of related products (five years)
Software	Expected life of the software system (ten years)

Intangible assets with finite lives are depreciated over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life is reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not depreciated, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income (loss) when the asset is derecognized.

Business combinations and goodwill

Business combinations from January 1, 2010:
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the consideration transferred, measured at the acquisition date in addition to the fair value of any non-controlling interest in the acquired. All acquisition costs are expensed as incurred. Any contingent consideration expected to be paid will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognized in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Company’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized as a gain for the period.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assigned to the Company’s CGUs that are expected to benefit from the combination, irrespective of whether the assets and liabilities of the acquired are assigned to that (those) CGU(s). If a business unit is disposed of, goodwill disposed of is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Business combinations prior to January 1, 2010:
Prior to January 1, 2010, the following significant differences exist in accounting for business combinations. Using the elections available under IFRS 1, the Company has elected not to restate the accounting for business combinations that occurred prior to the date of transition to IFRS.

Business combinations were accounted for using the purchase method and transaction costs incurred in the acquisition of a subsidiary formed part of the acquisition costs. Contingent consideration was recognized only if the Company had a present obligation, the economic outflow was more likely than not and had a reliable estimate of the amount. Subsequent adjustments to the contingent consideration resulted in adjustments to the goodwill balance.

Goodwill is tested for impairment annually as at October 1 or more frequently when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU (or group CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (including the carrying value of the allocated goodwill) is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

General:
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will occur and a reliable estimate of the obligation can be made. Where the Company expects to be reimbursed for any part of a provision, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain, otherwise the circumstances of the reimbursement are disclosed as a contingency. Expenses relating to a provision are presented in the consolidated statements of income (loss) net of any recognized reimbursement.

Self-insured liabilities:
The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims, US workers' compensation and patent infringement through Radigan Insurance Inc., its captive insurance company. The provision for self-insured liabilities includes estimates of the costs of reported and expected claims based on estimates of losses using assumptions determined by a certified reserve analyst.

Warranty:
The Company generally warrants its products for a period of one year after sale, and for up to 30 years for corrosion, if the products are properly installed and used solely for storage of listed liquids. A number of component materials and parts are similarly warranted by their manufacturers, thereby offsetting the Company's exposure to warranty claims.

The Company's complete storage systems marketed under the Prezerver trademark carry an enhanced 10 year, insurance-backed warranty covering product replacement and pollution protection up to the limits of the policy. The Prezerver warranty is covered by insurance underwritten by a major international insurer for Prezerver storage systems installed before December 1, 2006. The Prezerver warranty for qualifying storage systems installed thereafter is insured through the Company's captive insurance company, Radigan Insurance Inc. The Company also carries general liability insurance including product pollution coverage.

The Company's warranty provision is based on a review of products sold and historical warranty cost experienced over the past five years. Provisions for warranty costs are charged to the consolidated statements of income (loss) and revisions to the estimated provision are charged to the consolidated statements of income (loss) in the period in which they occur.

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars and this is also the parent Company's functional currency. The functional currency of each of the Company's subsidiaries is determined and the financial statements of each entity are measured using that functional currency. The determination of functional currency is based on management's judgments with regard to the main settlement currency for the entities sales, labour costs and major materials. In addition, management also considers factors such as the currency of the entity's financing activities, the autonomy of foreign operations and the proportion of the foreign operation's transactions that are with the parent company.

Subsidiaries:
The assets and liabilities of foreign subsidiaries whose functional currencies are not denominated in Canadian dollars are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of income (loss) are translated at the exchange rates prevailing at the date of the transactions. Exchange differences arising on the translation of foreign subsidiaries are recognized in other comprehensive income (loss). Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying value of assets and liabilities arising on acquisition and are treated as assets and liabilities of the foreign subsidiary and are translated into Canadian dollars at the rate of exchange prevailing on the reporting date. The Parabeam subsidiary's functional currency is the euro and the functional currency of all other subsidiaries is US dollars with the exception of the Canadian operations of ZCL Dualam.

Foreign transactions and balances:
When the Company or one of its subsidiaries transacts in a currency other than its functional currency, the transaction is measured initially at the closing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at a reporting period with the differences being recorded in the consolidated statements of income (loss). Non-monetary assets and liabilities are measured in terms of historical costs and are translated using the exchange rates in existence at the date of the initial transaction.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Sale of tanks and related products:
Revenue from the sale of tanks and related products is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards are generally transferred upon delivery of the goods, however there are

circumstances where the buyer accepts the risks and rewards of ownership prior to accepting delivery of the goods which also triggers revenue recognition.

Installation and field service contracts:
Revenue from installation and field service contracts is accounted for using the percentage of completion method. The stage of completion of a transaction qualifying for percentage of completion revenue recognition is determined by the proportion of costs incurred to date relative to the estimated total costs to complete the transaction. Anticipated losses on transactions are recognized as soon as they can be reliably estimated.

Up-front non-refundable license fees and royalty revenue:
Revenue from up-front non-refundable license fees is recognized on a straight-line basis over the term of the Company's obligation of the related deliverables unless there is evidence that another method is more representative of the stage of completion. Royalty revenue from the third party use of the Company's technology is recognized in accordance with the royalty agreement and when the revenue can be reliably measured.

Financial instruments

Financial assets:
The Company classifies financial assets as either fair value through profit or loss, held to maturity investments, loans or receivables or available for sale financial assets or derivatives as appropriate. The classification of a financial asset is determined at the time of initial recognition of the asset.

Financial assets at fair value through profit or loss:
The Company's financial assets held at fair value through profit or loss consist of cash and cash equivalents and restricted cash.

Loans and receivables:
The Company's loans and receivables consist of accounts receivable, other assets and income taxes recoverable. These assets are measured initially at fair value on the consolidated balance sheet, then they are carried at amortized cost using the effective interest method less any related impairment losses.

Held to maturity investments:
As at December 31, 2011, 2010 and January 1, 2010, the Company did not have any held to maturity investments on the consolidated balance sheet.

Available for sale financial instruments:
As at December 31, 2011, 2010 and January 1, 2010, the Company did not have any available for sale financial instruments on the consolidated balance sheet.

Financial liabilities:
The Company classifies financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments. The classification of a financial liability is determined at the time of initial recognition.

Financial liabilities at fair value through profit and loss:
The Company's financial liabilities carried at fair value through profit or loss consist of liabilities for cash-settled share-based payment arrangements under the Company's Stock Appreciation Rights Plan and Restricted Share Unit Plan. See note 16 for further details.

Loans and borrowings:
The Company's loans and borrowings consist of accounts payable, income taxes payable, current portion of long term debt, long term debt, current portion of preferred shares and preferred shares. These liabilities are measured initially at fair value plus transaction costs on the consolidated balance sheet, then they are carried at amortized cost using the effective interest method less any related impairment losses. Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Company incurs transaction costs primarily through the issuance of debt and classifies these costs with the long term debt. These costs are amortized using the effective interest method over the life of the related debt instrument.

Share-based payments

Equity-settled transactions:
Equity-settled share-based payments consist of stock options issued by the Board of Directors of the Company to directors, employees or other people who provide management services to the Company. The cost of the stock options granted are measured at their fair value at the date on which they were granted. The fair value is estimated using the Black-Scholes option pricing model and it factors in several inputs. For more information on the estimates and inputs made by the Company, refer to note 16.

The cost of equity-settled transactions is recognized in the consolidated statement of income (loss) over the period in which the service condition is fulfilled with the corresponding adjustment added to the contributed surplus account. No expense is recognized for awards that do not vest. Where equity-settled transactions are cancelled by the Company, they are treated as if they had vested and any unrecognized expense relating to the cancelled options is recognized in the consolidated statement of income (loss) in that period.

Cash-settled transactions:
Cash-settled transactions consist of the SAR and RSU plans. Stock Appreciation Rights ("SAR") plans are granted to directors and senior management of the Company and each unit entitles the holder to the cash amount of the difference between the value specified under the plan and the market value of the Company's common shares on the exercise date. The cost of SARs is measured initially at fair value which is determined using the Black-Scholes option pricing model and it is expensed over the period until the vesting date with the corresponding adjustment recognized as a liability on the consolidated balance sheet. At each reporting date, the liability is remeasured to fair value, with the corresponding changes in fair value recognized in the statement of income (loss).

Restricted Share Unit ("RSU") plans are granted to senior management of the Company and each unit entitles the holder to the cash equivalent of one notional common share. The cost of the RSUs is measured at fair value which is determined by the Company's stock price on the grant date. At each reporting period, the RSUs are remeasured to fair value based on the trading price of the Company's stock at the reporting date.

Income taxes

Current income taxes:
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred taxes:
Deferred tax is accounted for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and the carrying value for accounting purposes. Deferred tax liabilities are recorded for all temporary differences other than:

- Where the temporary difference arises from the initial recognition of goodwill, or
- Where the temporary difference is associated with investments in subsidiaries can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused losses to the extent that it is probable that the taxable profit will be available against the deductible temporary difference and can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and if necessary, reduced to the extent that it is no longer probable that the future taxable income will be sufficient to utilize the deferred tax asset. Unrecognized deferred tax assets are reassessed at each reporting period and if it is probable that the asset will be recovered, a deferred tax asset is recognized to that extent.

All deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates which have been enacted or substantively enacted by the end of the reporting period.

4. BUSINESS ACQUISITION

Business acquisitions are accounted for using the acquisition method with the results of the acquired business included in the consolidated financial statements since their effective acquisition date. Effective January 4, 2010, the Company acquired 100% of the issued and outstanding shares of ZCL Dualam and its subsidiaries. ZCL Dualam was a privately held company based out of Montreal, Quebec and is a leading provider of custom engineered fibreglass reinforced plastic and dual-laminate composite products for use in corrosion-resistant applications in the power generation, chemical, chloralkali, pulp and paper and other industrial sectors.

As indicated in note 3, Significant Accounting Policies, contingent consideration and goodwill relating to business combinations are recorded differently under IFRS as opposed to previous GAAP. The net assets acquired as at January 4, 2010 and aggregate consideration given, are presented as follows under IFRS along with a reconciliation of the differences between previous GAAP and IFRS:

Fair value of net assets acquired

(in thousands of dollars)	**Previous GAAP** $	**Re-measurements** $	**IFRS** $
Current assets, net of cash acquired	9,854	—	**9,854**
Property, plant and equipment	6,030	—	**6,030**
Intangible assets			
Customer relationships, eight year useful life	3,277	—	**3,277**
Brands, five year useful life	1,088	—	**1,088**
Intellectual property, 10 year useful life	2,220	—	**2,220**
Non-competition agreement, five year useful life	320	—	**320**
Goodwill	12,327	2,329	**14,656**
Other assets	23	—	**23**
Total assets	35,139	2,329	**37,468**
Current liabilities	(9,487)	—	**(9,487)**
Deferred tax liabilities	(2,842)	(64)	**(2,906)**
Long term liabilities, other than deferred taxes	(2,365)	—	**(2,365)**
Total liabilities	(14,694)	(64)	**(14,758)**
Net assets acquired	20,455	2,265	**22,710**

Consideration given

(in thousands of dollars)	**Previous GAAP** $	**Re-measurements** $	**IFRS** $
Cash	7,800	—	**7,800**
1,636,490 common shares issued at a fair value of $3.63 per share	5,940	—	**5,940**
1,078,948 preferred shares issued by a subsidiary of the Company *[note 12]*	5,970	—	**5,970**
Contingent consideration	—	3,000	**3,000**
Acquisition costs	735	(735)	**—**
Total consideration	20,445	2,265	**22,710**

Goodwill and intangible assets impairment:

Due to the operating losses experienced in ZCL Dualam, the Company conducted an impairment test on the goodwill and intangible assets acquired as at September 30, 2010. An impairment loss of $10,271,000 and $159,000 was recognized on the goodwill and intangible assets respectively using previous GAAP standards. Under IFRS, impairment losses of $12,692,000 and $4,226,000 are recognized for goodwill and intangible assets respectively. As at the year ended December 31, 2011, the carrying amount of goodwill and intangible assets relating to ZCL Dualam is $2,091,000 and $1,550,000 respectively. The differences between IFRS and previous GAAP were retroactively recognized in these consolidated financial statements. For further information regarding the restated opening balances for the December 31, 2010 period, refer to note 27.

Contingent consideration:

The contingent consideration recognized on the acquisition of ZCL Dualam relates to an earn-out provision whereby the vendor could have earned up to an additional $6,000,000 over the first two years after the acquisition (annual maximum of $3,000,000). The earn-out was calculated on a pre-defined formula based on the EBITDA of the ZCL Dualam divisions. The initial budget for the ZCL Dualam divisions prepared shortly after the acquisition indicated that the EBITDA requirements would not have been met for the 2010 year, but the full EBITDA target was expected to be met for the 2011 earn-out period; therefore a provision of $3,000,000 was set up on the acquisition as per the requirements under IFRS 3: "Business Combinations".

Further economic analysis performed on the market segments serviced by the ZCL Dualam divisions showed a reduction in the projects being sent out for bid and increasing price competition on available jobs. As a result, the analysis indicated that ZCL Dualam would not likely meet the minimum EBITDA targets defined in the earn-out provisions and a gain of $3,000,000 was recognized in the September 30, 2010 period. The differences between IFRS and previous GAAP were retroactively recognized in these consolidated financial statements.

5. INVENTORIES

As at

(in thousands of dollars)	**December 31, 2011 $**	**December 31, 2010 $**	**January 1, 2010 $**
Raw materials	**8,846**	9,302	7,826
Work in progress	**5,950**	2,966	3,719
Finished goods	**9,475**	6,491	8,398
	24,271	18,759	19,943

During the year ended December 31, 2011, there was a write down of $175,000 (December 31, 2010 - $49,000) of inventory to its net realizable value.

6. MANUFACTURING AND SELLING COSTS

For the year ended December 31,

(in thousands of dollars)	**2011 $**	**2010 $**
Raw materials and consumables used	**45,345**	41,041
Labour costs	**24,357**	30,488
Other costs	**43,858**	36,017
Net change in inventories of finished goods and work in progress	**(5,968)**	2,370
	107,592	109,916

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land $	Buildings $	Leaseholds $	Manufacturing Equip. $	Office Equip. $	Auto Equip. $	Total $
Cost							
As at January 1, 2010	3,501	6,006	2,629	22,616	3,119	524	38,395
IFRS re-measurements	2,690	—	—	—	—	—	2,690
Restated January 1, 2010	6,191	6,006	2,629	22,616	3,119	524	41,085
Additions	—	4	128	527	376	107	1,142
Acquired through business combination	853	3,446	358	1,168	186	214	6,225
Disposals	(371)	(290)	(73)	(1,912)	(65)	(376)	(3,087)
Impairment losses	—	(375)	—	(361)	—	—	(736)
Reclassified as held for sale	(304)	(847)	—	—	—	—	(1,151)
Foreign exchange	(58)	(271)	(100)	(1,187)	(162)	(52)	(1,830)
As at December 31, 2010	6,311	7,673	2,942	20,851	3,454	417	41,648
Additions	—	278	310	950	200	15	1,753
Disposals	—	—	(61)	(1,740)	(67)	(30)	(1,898)
Foreign exchange on assets held for sale	—	(8)	—	—	—	—	(8)
Foreign exchange	2	109	35	87	11	6	250
As at December 31, 2011	**6,313**	**8,052**	**3,226**	**20,148**	**3,598**	**408**	**41,745**
Accumulated Depreciation							
As at January 1, 2010	—	1,570	732	10,542	2,008	274	15,126
IFRS re-measurements	—	—	—	26	—	—	26
Restated January 1, 2010	—	1,570	732	10,568	2,008	274	15,152
Depreciation	—	234	239	1,414	338	89	2,314
Disposals	—	(28)	(35)	(1,261)	(56)	(373)	(1,753)
Reclassified as held for sale		(205)	—	—	—	—	(205)
Foreign exchange	—	19	56	(968)	11	101	(781)
As at December 31, 2010	—	1,590	992	9,753	2,301	91	14,727
Depreciation	—	275	338	1,131	346	78	2,168
Disposals	—	—	(12)	(1,321)	(51)	(17)	(1,401)
Foreign exchange	—	(38)	128	17	5	6	118
As at December 31, 2011	**—**	**1,827**	**1,446**	**9,580**	**2,601**	**158**	**15,612**
Carrying Amount							
As at January 1, 2010	6,191	4,436	1,897	12,048	1,111	250	25,933
As at December 31, 2010	6,311	6,083	1,950	11,098	1,153	326	26,921
As at December 31, 2011	**6,313**	**6,264**	**1,780**	**10,568**	**997**	**250**	**26,172**

Capital work in progress of $524,000 (December 31, 2010 - $180,000) is included above and is not subject to depreciation. Included in this figure is $251,000 in buildings (improvements) and $273,000 in manufacturing equipment. Assets held for sale of $952,000 (December 31, 2010 - $946,000) are comprised of land and buildings which have been determined to be surplus to the Company's needs.

8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships $	Brands $	Internally Developed ERP Software $	Deferred Development Costs $	Product Certifications $	Other $	Total $
Cost							
As at January 1, 2010	6,246	3,071	2,539	1,194	102	1,539	14,691
Additions	—	—	705	—	—	236	941
Acquired through business combinations	3,277	1,088	—	—	—	2,540	6,905
Disposals	—	—	—	—	(32)	—	(32)
Impairment losses	(2,798)	(480)	—	—	—	(949)	(4,227)
Foreign exchange	(293)	(144)	—	—	—	(47)	(484)
As at December 31, 2010	6,432	3,535	3,244	1,194	70	3,319	17,794
Additions	—	—	—	—	—	25	25
Disposals	—	—	—	—	(70)	—	(70)
Foreign exchange	117	58	33	—	—	19	227
As at December 31, 2011	**6,549**	**3,593**	**3,277**	**1,194**	**—**	**3,363**	**17,976**
Accumulated Depreciation							
As at January 1, 2010	2,868	870	—	727	—	745	5,210
Depreciation	1,213	495	245	297	—	457	2,707
Foreign exchange	(161)	(50)	(5)	—	—	(23)	(239)
As at December 31, 2010	3,920	1,315	240	1,024	—	1,179	7,678
Depreciation	895	411	322	170	—	370	2,168
Foreign exchange	97	31	9	—	—	14	151
As at December 31, 2011	**4,912**	**1,757**	**571**	**1,194**	**—**	**1,563**	**9,997**
Carrying Amount							
As at January 1, 2010	3,378	2,201	2,539	467	102	794	9,481
As at December 31, 2010	2,512	2,220	3,004	170	70	2,140	10,116
As at December 31, 2011	**1,637**	**1,836**	**2,706**	**—**	**—**	**1,800**	**7,979**

Other intangible assets include licenses, patents, air permits, non-patented technology and costs related to an RTP-1 certification. As at December 31, 2011, the Company incurred $286,000 in expenditures relating to the RTP-1 certification project (December 31, 2010 - $268,000). The certification is still in progress and no depreciation has been recorded against the RTP-1 costs.

9. BANK INDEBTEDNESS

Bank indebtedness consists of amounts drawn under available credit facilities and cheques issued in excess of related bank balances; the Company has a maximum of $20 million of available credit under this operating facility. The operating facility is repayable on demand and expires on May 31, 2012; however the operating facility is typically renewed on an annual basis with the Company's primary lender. The rate of interest charged on the operating credit facility for Canadian dollar balances is prime plus 100 basis points. The rate of interest charged on the operating credit facility for US dollar balances is US prime plus 100 basis points.

The Company has pledged as general collateral for advances under the operating credit facility a general security agreement on present and future assets, guarantees from each present and future direct and indirect subsidiary of the Company supported by a first registered security over all present and future assets, and pledge of shares. The Company is not permitted to sell or re-pledge significant assets held under collateral without consent from the lenders. The Company is required to meet certain covenants as a condition of the debt agreements. At December 31, 2011, the Company was in compliance with all restrictive covenants relating to the operating credit facility.

10. PROVISIONS AND CONTINGENCIES

a) Provisions

(in thousands of dollars)	**Warranty** **$**	**Self-insured liabilities** **$**	**Other** **$**	**Total** **$**
As at January 1, 2010	256	374	30	660
Amounts used against the provision	(575)	(141)	(26)	(742)
Additional provision	741	102	24	867
Foreign exchange	(15)	(16)	(1)	(32)
As at December 31, 2010	407	319	27	753
Amounts used against the provision	(521)	—	(227)	(748)
Additional provision	650	121	824	1,595
Foreign exchange	7	10	17	34
As at December 31, 2011	**543**	**450**	**641**	**1,634**

Of the $1,634,000 in provisions described above, the Company expects $1,185,000 to settle within 12 months of the balance sheet date, the remaining $449,000 of provisions are classified as long term liabilities on the balance sheet.

b) Contingencies

In the normal conduct of operations, various legal claims or actions are pending against the Company in connection with its products and/or other commercial matters. The Company carries liability insurance, subject to certain deductibles and policy limits, against such claims. Based on advice and information provided by legal counsel, management records losses, if any, in the period in which uncertainty regarding such matters is resolved and the amount of the loss can be reasonably estimated.

11. LONG TERM DEBT

(in thousands of dollars)	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Term loan	**4,168**	8,487	4,500
Other long term debt	**2,106**	2,644	846
Total long term debt	**6,274**	11,131	5,346
Less current portion	**1,687**	3,398	2,343
	4,587	7,733	3,003

a) Term loan

During the year ended December 31, 2011, the Company elected to convert its Canadian banker's acceptance based term loan to a US dollar based LIBOR loan as permitted by the existing credit facility. Excluding financing cost, the principal balance of the term loan as of December 31, 2011 is $4,144,000 USD (December 31, 2010 – $8,487,000 Canadian dollars) which is a reasonable estimate of its fair value.

During the year ended December 31, 2011, the Company amended certain financial covenants relating to the term loan that took effect during the fourth quarter of the 2011 fiscal year. The term loan requires monthly interest payments and quarterly principal repayments of $337,500 Canadian dollars, with the balance due on maturity on May 31, 2013. The interest charged on the loan is the US dollar based LIBOR rate plus 250 basis points. The Company is also subject to mandatory prepayments of outstanding principal equal to 100% of any net proceeds on asset disposals and insurance proceeds received by the Company. During the year ended December 31, 2011, the Company repaid $2,936,000 Canadian dollars of principal relating to proceeds from asset sales and the settlement of a note receivable on the disposal of the Home Heating Oil Tank division. Transaction costs directly attributable to the term loan are recorded as part of the carrying value of the debt and reflected in the measurement of the amortized cost of the obligation using the effective interest method.

The term loan is secured through a collateral mortgage over four properties owned by the Company. The carrying amount of these four properties as at December 31, 2011 is $6,754,000. As part of the term loan renewal process, an appraisal of the four properties was performed on December 31, 2010 which indicated an estimated fair value of $12,965,000 for the secured properties. Given the recent valuation of these properties, these appraisals fairly represent the fair values of the secured properties as at December 31, 2011.

The Company's operating and term credit facilities are utilized as required throughout the year. Both credit facilities bear interest at floating rates and changes in interest rates would affect the Company's exposure to interest rate risk in servicing the facilities (see note 23a).

b) Other long term debt

Other long term debt includes long term financing assumed with the acquisition of ZCL Dualam, along with a financing agreement involving software license fees, services and equipment relating to the Company's internally developed ERP software and related hardware components.

The ZCL Dualam long term debt requires monthly repayments of $15,100 plus interest, maturing in November 2023, and is collateralized by the assets financed. The loan bears interest at 0.25% above the base rate of the Business Development Bank of Canada ("BDC"). Subsequent to the year end, this loan was paid out and the balance of the term loan was increased by $2,000,000 Canadian dollars. For additional details, please refer to note 26.

The finance agreements require repayments of $30,300 including interest where applicable, monthly with the balance due on maturity in May 2012. The finance agreements, depending on the nature of the amounts financed, have rates of interest that vary between 0% and 7.15% per annum. The amount of debt will be accreted to its face value over the term of the instrument with the offsetting charge to interest expense.

12. PREFERRED SHARES

In conjunction with the business acquisition of ZCL Dualam as described in note 4, on January 4, 2010, 1,078,948 preferred shares were issued by a subsidiary of the Company, with a fair value of $5,970,000. The preferred shares have a term of five years and a cumulative annual dividend rate of 4.4% payable quarterly. In addition, the preferred shares in years three to five, are redeemable by the Company for cash or exchangeable by the vendor for the Company's common shares at a rate of $4.75 per common share. If the shares remain outstanding at the end of five years and have not been converted by the vendor, they are required to be redeemed by the Company for cash.

The preferred shares have been accounted for in accordance with IAS 39: "Financial Instruments: Recognition and Measurement" and IAS 32: "Financial Instruments: Presentation". Under this guidance, the Company valued the financial instrument as a whole as well as the liability component of the financial instrument. The difference between the estimated fair values of the liability and the entire instrument was recorded as equity. On the valuation date, the value of the liability component preferred shares was calculated to be $5,125,000 and the amount allocated to equity was $845,000. The fair value at the date of acquisition is still a reasonable measure of fair value as at the year ended December 31, 2011.

The current portion of the preferred shares relates to accrued interest payable. The liability component was calculated using a discount rate of 4.4% and a maturity date of five years from date of issue. The accrued interest payable on the preferred share dividend was $57,000 as at December 31, 2011 (December 31, 2010 - $57,000) and is presented as a current liability. The long term portion of the preferred shares have a carrying value of $5,125,000 as at December 31, 2011 (December 31, 2010 - $5,125,000) and is presented as a long term liability on the consolidated financial statements.

13. COMMITMENTS

Lease Commitment

The Company's minimum annual payments under the terms of all operating leases are as follows:

(in thousands of dollars)	$
2012	2,675
2013	2,535
2014	1,892
2015	1,047
2016	688
Thereafter	408

14. DIVIDENDS PAID

The Company did not declare or pay any dividends during the year ended December 31, 2011, however subsequent to year end, the Company's board of directors declared a dividend of $288,000 to be paid on April 2, 2012, equivalent to $0.01 per common share for all shareholders of record as of March 7, 2012. During the year ended December 31, 2010, dividends in the amount of $845,000 were paid on April 12, 2010, equivalent to $0.03 per share for all shareholders of record on April 8, 2010.

15. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par or stated value.

Issued and outstanding

During the year ended December 31, 2011, the Company issued no new shares. For the year ended December 31, 2010, the Company issued 1,636,490 common shares at $3.63 per share. The total fair value of these shares is $5,940,000 less issuance costs of $14,000 relating to the acquisition of ZCL Dualam referred to in note 4. The Company also issued 550,000 shares at $2.31 per share during the December 31, 2010 period through a private placement. During the year ended December 31,

2010, the Company issued 69,999 common shares for options exercised. 3,332 stock options exercised had an exercise price of $3.75 and 66,667 stock options had an exercise price of $2.90, resulting in cash proceeds to the Company of $206,000 less $14,000 in share issuance costs for the year ended December 31, 2010.

There were no amounts credited to share capital during the year as no options were exercised during 2011. Amounts credited to share capital related to options exercised included $65,000 during the year ended December 31, 2010 for options in respect of compensation expense previously included in contributed surplus.

16. SHARE-BASED PAYMENTS

The Black-Scholes option pricing model, used by the Company to calculate the values of options, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully-transferable options without vesting restrictions. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values.

a) Stock options

Under the Company's stock option plan, options to purchase common shares may be granted by the Board of Directors to directors, employees, and persons who provide management or consulting services to the Company. The shareholders authorized the number of options that may be granted under the plan to be not more than 10% of the issued and outstanding shares of the Company on a non-diluted basis provided that the number of listed securities that may be reserved for issuance under stock options granted to any one individual or insiders of the Company not exceed 5% of the Company's issued and outstanding securities. The exercise price of options granted cannot be less than the closing market price of the Company's common shares on the last trading day preceding the grant. The Company's Board of Directors may determine the term of the options but such term cannot be greater than five years from the date of issuance. Vesting terms, eligibility of qualifying individuals to receive options and the number of options issued to individual participants are determined by the Company's Board of Directors. The plan has no cash settlement features. Options generally expire 90 days from the date on which a participant ceases to be a director, officer, employee, management company employee or consultant of the Company.

As at December 31, 2011, the Company has 2,207,498 (2010 – 1,414,000) options outstanding, which expire on dates between December 2013 and December 2016. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2011, 747,469 (2010 – 590,119) of the outstanding options were vested and exercisable into common shares. The following table presents the changes to the options outstanding during each of the fiscal periods:

For the year ended December 31,

	2011		2010	
	Stock options	**Weighted average exercise price**	**Stock options**	**Weighted average exercise Price**
Balance, as at January 1	**1,414,000**	**4.01**	955,667	3.99
Granted	**1,195,000**	**3.10**	642,500	3.88
Exercised	**—**	**—**	(69,999)	2.94
Forfeited	**(351,502)**	**4.39**	(114,168)	3.81
Expired	**(50,000)**	**4.55**	—	—
Balance, as at December 31	**2,207,498**	**3.44**	1,414,000	4.01

	2011				
	Options Outstanding			**Options Exercisable**	
Exercise Price $	**Stock options #**	**Weighted Average Exercise Price $**	**Weighted Average Remaining Contractual Life in Years #**	**Stock options #**	**Weighted Average Exercise Price $**
3.75	**579,999**	**3.75**	**1.94**	**579,999**	**3.75**
3.87	**464,999**	**3.87**	**3.02**	**159,972**	**3.87**
4.09	**22,500**	**4.09**	**3.19**	**7,498**	**4.09**
3.05	**510,000**	**3.05**	**4.19**	**—**	**—**
3.23	**7,500**	**3.23**	**4.40**	**—**	**—**
3.15	**622,500**	**3.15**	**4.93**	**—**	**—**
3.05 – 4.09	**2,207,498**	**3.44**	**3.55**	**747,769**	**3.78**

	2010				
	Options Outstanding			Options Exercisable	
Exercise Price $	Stock options #	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life in Years #	Stock options #	Average Exercise Price $
4.55	50,000	4.55	0.47	50,000	4.55
10.14	37,400	10.14	1.92	37,400	10.14
7.67	1,600	7.67	2.21	1,067	7.67
3.75	737,500	3.75	2.94	501,652	3.75
3.87	565,000	3.87	4.02	—	—
4.09	22,500	4.09	4.19	—	—
3.75 – 10.14	1,414,000	4.01	3.27	590,119	4.23

During the year ended December 31, 2011, 1,195,000 options were granted (2010 – 642,500). 622,500 options were granted on December 6, 2011 at an exercise price of $3.15, 565,000 options were granted on March 11, 2011 at an exercise price of $3.05 and 7,500 options were granted on May 25, 2011 at an exercise price of $3.23. During the year ended December 31, 2010, 642,500 options were granted. 620,000 options were granted on January 7, 2010 at an exercise price of $3.87 and 22,500 options were granted on March 10, 2010 at an exercise price of $4.09. 3,332 stock options exercised that had an exercise price of $3.75 and 66,667 options exercised had an exercise price of $2.90, resulting in cash proceeds to the Company of $206,000 for the year ended December 31, 2010.

The Company cancelled 351,502 stock options (2010 – 114,168) during the year ended December 31, 2011 with an average exercise price of $4.39 (2010 – 3.81). During the year ended December 31, 2011, 50,000 stock options expired with an exercise price of $4.55 (2010 – nil).

During the year ended December 31, 2011, $nil (2010 – $65,000) was credited to share capital related to options exercised in respect of compensation expense previously included in contributed surplus.

The Company uses the fair value method of accounting for all stock options granted to employees. The fair value of stock options at the date of grant or transfer is determined using the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yield, volatility factors of the expected market prices of the Company's common shares, expected forfeitures and an expected life of the instrument. Share-based compensation expense is recognized using a graded vesting model. During the year ended December 31, 2011, share-based compensation expense of $508,000 (2010 - $791,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income (loss).

The estimated fair values of stock options granted are determined at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions resulting in a fair value per option of $0.90, $1.21 and $0.97 for the three issuances granted respectively ($1.28 and $1.34 during the year ended December, 2010 respectively).

	2011	2010
Risk-free interest rate (%)	1.7	2.3
Expected hold period to exercise (years)	3.2	4.0
Volatility in the price of the Company's shares (%)	49.8	53.4
Forfeiture rate (%)	5.0	2.6
Dividend yield (%)	1.7	3.0

The expected hold period, volatility and dividend yield are based on management's judgments in regard to the Company's past history and expectations for the future. The above figures reflect the average parameters used in all three grants issued during the 2011 year and both grants during the 2010 year.

b) Stock Appreciation Rights (SARs) and Restricted Share Units (RSUs)

	2011		2010	
	SARs \#	RSUs \#	SARs \#	RSUs \#
Balance, as at January 1	**67,743**	**11,840**	153,090	23,000
Granted	—	—	—	73,125
Cancelled / expired	**(62,743)**	—	(73,930)	—
Forfeited	**(5,000)**	**(4,440)**	(11,417)	(77,685)
Exercised	—	—	—	(6,600)
Balance, as at December 31	—	**7,400**	67,743	11,840

The Company's Board of Directors have approved a Stock Appreciation Rights Plan whereby SARs may be granted to directors, officers and employees of the Company at the Board of Directors' discretion. Each SAR entitles the holder to the cash amount for the difference between the value specified under the plan and the intrinsic value of the Company's common shares on the exercise date. When granted, the rights vest equally over a three year period following the date of grant and expire one year after each vested year. No SARs were granted in 2011 or 2010.

The Company's Board of Directors also approved a Restricted Share Unit Plan where each designated executive receives an annual grant of RSUs as part of their compensation at the board's discretion. Each RSU represents one notional common share that entitles the participant to an equivalent cash amount upon attainment of both performance targets and a specified time period, three to four years, following the year of the date of grant. There were no RSU's granted during the year ended December 31, 2011. On January 7, 2010, 73,125 RSUs were granted to employees and directors of the Company with an exercise price of $3.87.

For the year ended December 31, 2011, in the consolidated statement of income (loss), a recovery in manufacturing and selling costs and general and administration expenses of $5,000 (2010 –$13,000) was recorded relating to the RSUs. No expenses were incurred during 2011 or 2010 relating to SAR's. As at December 31, 2011, a liability of $23,000 (December 31, 2010 - $28,000) was recorded on the consolidated balance sheet relating to RSUs. No liability relating to the SARs existed as at December 31, 2011 or December 31, 2010 because it is unlikely that there will be any cash settlement related to the SARs due to the low trading value of the Company's shares relative to the exercise price of the SARs.

17. INCOME TAXES

The Company's effective income tax expense has been determined as follows:

(in thousands of dollars)	2011 $	2010 $
Statutory federal and provincial taxes at 27.03% (2010 – 28.65%)	**1,246**	(5,928)
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**39**	(292)
Effect of permanent differences	**257**	2,963
Non-taxable foreign income, other tax exempt income and other items	**(388)**	(733)
	1,154	(3,990)

Significant components of the Company’s deferred tax liabilities are as follows:

(in thousands of dollars)	2011 $	2010 $
Property, plant and equipment	**3,239**	3,284
Land	**343**	348
Intangible assets	**1,862**	1,996
Inventories	**571**	335
Refundable insurance premiums	**118**	122
Non-deductible reserves and accrued liabilities	**(603)**	(443)
Loss carry forward	**(308)**	(690)
Scientific research and experimental development credits	**(161)**	—
Other	**7**	(104)
	5,068	4,848

The Company has U.S. federal and state loss carry forwards of approximately US$264,000 and US$1,538,000 respectively that are available to reduce the taxable income of certain US subsidiaries that expire at varying times from 2012 to 2031. The Company also has Canadian non-capital loss of $603,000 which will expire from 2029 to 2031 and may be applied to reduce taxable income in the future. The potential income tax benefits related to these losses have been recognized in these financial statements.

18. DISCONTINUED OPERATIONS

On May 31, 2011, the Company disposed of the steel tank division for cash proceeds of $800,000. On June 14, 2010, the Company disposed of the Home Heating Oil Tank (“HHOT”) division which included all related inventory and equipment for cash proceeds of $300,000 and a loan payable to the Company with a face value of $1,700,000 as at December 31, 2010. The loan was paid out in cash proceeds of $1,336,000 on March 16, 2011.

a) The results of the discontinued operations are as follows:

(in thousands of dollars)	**2011** **$**	**2010** **$**
Revenue	**2,066**	6,050
Manufacturing and selling costs	**2,277**	6,850
	(211)	(800)
Depreciation	**19**	229
General and administration	**26**	—
Gain on disposal of equipment	**(31)**	(1,038)
Loss on impairment of property, plant and equipment	**—**	361
	14	(448)
Loss before income taxes	**(225)**	(352)
Income tax recovery	**(61)**	(203)
Net loss from discontinued operations	**(164)**	(149)

b) The carrying amounts of the assets disposed are as follows:

(in thousands of dollars)	**May 31, 2011** **$**	**June 14, 2010** **$**
Inventory	**530**	424
Equipment	**397**	575
Total carrying values of assets disposed	**927**	999

c) Cash used in discontinued operations are as follows:

(in thousands of dollars)	**2011** **$**	**2010** **$**
Cash flows from continuing operations		
Net loss	**(164)**	(149)
Add items not affecting cash:		
Depreciation	**19**	229
Gain on disposal of assets	**(31)**	(1,038)
Loss on impairment of property, plant and equipment	**—**	361
Cash used in discontinued operations	**(176)**	(597)

19. EARNINGS PER SHARE

The following table sets forth the net income (loss) available to common shareholders and weighted-average number of common shares outstanding for the computation of basic and diluted earnings per share:

For the year ended December 31,

Numerator (in thousands of dollars)	**2011** **$**	**2010** **$**
Net income (loss) from continuing operations	**3,454**	(16,700)
Net loss from discontinued operations	**(164)**	(149)
Net income (loss)	**3,290**	(16,849)
	2011	**2010**

Denominator (in thousands)	#	#
Weighted average shares outstanding - basic	**28,802**	28,311
Effect of dilutive securities:		
Stock options	**—**	—
Weighted average shares outstanding - diluted	**28,802**	28,311

20. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for $30,000 (2010 - $82,000) for the year ended December 31, 2011, included in manufacturing and selling costs in the consolidated statements of income (loss) or inventories were provided by a corporation whose Chairman and CEO is a director of the Company. The transactions were incurred in the normal course of operations and recorded at the exchange amount being normal commercial rates for the products. Accounts payable and accrued liabilities at December 31, 2011 included $nil (December 31, 2010 - $13,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

b) Transactions with key management and directors:

For the year ended December 31,

(in thousands of dollars)	**2011** **$**	**2010** **$**
Salaries, benefits and director fees	**1,126**	1,300
Share-based payments	**164**	252
Termination benefits	—	750
Total	**1,290**	2,302

The Company has identified the named executive officers as key management to the Company in addition to the members of the board of directors. The figures above are included in general and administrative expenses for the years ended December 31, 2011 and 2010. Share-based payments are the amount of expense recognized in the consolidated statement of income (loss) relating to the identified key management and directors.

21. FINANCE EXPENSE

For the year ended December 31,

(in thousands of dollars)	**2011** **$**	**2010** **$**
Short-term interest, net of interest income	**940**	805
Interest, long term obligations	**332**	558
	1,272	1,363

22. STATEMENT OF CASH FLOWS

Supplementary disclosures required in respect of the statement of cash flows are as follows:

a) Interest and income taxes paid

For the year ended December 31,

(in thousands of dollars)	**2011** **$**	**2010** **$**
Net interest paid	**1,206**	1,377
Income taxes paid	**133**	432

b) Cash used in business acquisitions, net of cash acquired

For the year ended December 31,

(in thousands of dollars)	**2011** **$**	**2010** **$**
Cash consideration paid *[note 4]*	—	7,800
Acquisition costs	—	735
Less: cash acquired in business acquisition	—	(415)
Cash used in business acquisition, net of cash acquired	—	8,120

23. FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not currently have a practice of trading derivatives and had no derivative instruments outstanding at December 31, 2011.

a) Interest rate risk

The Company's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing the Company's financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the related impact on the return earned on cash and cash equivalents, restricted cash and the expense on floating rate debt. On an ongoing basis, management monitors changes in short term interest rates and considers long term forecasts to assess the potential cash flow impact to the Company. The Company does not currently hold any financial instruments to mitigate its interest rate risk. Cash and cash equivalents and restricted cash earn interest based on market interest rates. Bank indebtedness balances and long term debt have floating interest rates which are subject to market fluctuations.

The effective interest rate on the bank indebtedness balance at December 31, 2011 was prime plus 100 basis points, 4% (December 31, 2010 - prime plus 175 basis points, 4.75%) adjusted quarterly based on certain financial indicators of the Company. The effective interest rate on the term loan balance at December 31, 2011 was US LIBOR rate plus 250 basis points, 2.75%, adjusted quarterly based on certain financial indicators of the Company. The Dualam long term debt bears interest at 25 basis points above the base rate of the Business Development Bank of Canada ("BDC"). With other variables unchanged, an increase or decrease of 100 basis points in the US LIBOR and Canadian prime interest rate as at December 31, 2011 would have impacted net income for the year then ended by approximately $131,000. See note 26 on BDC loan payout.

b) Foreign exchange risk

The Company operates on an international basis and is subject to foreign exchange risk exposures arising from transactions denominated in foreign currencies. The Company's objective with respect to foreign exchange risk is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management. Foreign currency exchange risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company's most significant foreign exchange risk arises primarily with respect to the US dollar. The revenues and expenses of the Company's US operations are denominated in US dollars. Certain of the revenue and expenses of the Canadian operations are also denominated in US dollars. The Company is also exposed to foreign exchange risk associated with the euro due to its operations in The Netherlands, however these amounts are not significant to the Company's consolidated financial results. On an ongoing basis, management monitors changes in foreign currency exchange rates as well as considering long term forecasts to assess the potential cash flow impact to the Company. During the year ended December 31, 2011, the Company converted Canadian dollar cash to US dollar cash to help mitigate foreign exchange exposures resulting from fluctuations in exposed monetary assets and liabilities. The Company continues to monitor its foreign exchange exposure on monetary assets.

The tables that follow provide an indication of the Company's exposure to changes in the value of the US dollar relative to the Canadian dollar as at and for the year ended December 31, 2011. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the period ("balance sheet exposure"), which are separated by domestic and foreign operations, and US dollar denominated revenue and operating expenses during the period ("operating exposure").

Balance sheet exposure as at December 31, 2011,

(in thousands of US dollars)	**Foreign Operations** $	**Domestic Operations** $	**Total** $
Cash and cash equivalents	**473**	**30**	**503**
Accounts receivable	**8,767**	**4,077**	**12,844**
Restricted cash	**250**	**—**	**250**
Accounts payable and accrued liabilities	**(8,713)**	**(1,341)**	**(10,054)**
Trade balances with self-sustaining foreign entities	**—**	**(3,046)**	**(3,046)**
Long term debt	**—**	**(4,141)**	**(4,141)**
Net balance sheet exposure	**777**	**(4,421)**	**(3,644)**

Operating exposure for the year ended December 31, 2011,

(in thousands of US dollars)	**$**
Sales	**82,582**
Operating expenses	**75,319**
Net operating exposure	**7,263**

The weighted average US to Canadian dollar translation rate was 0.99 for the year ended December 31, 2011. The translation rate as at December 31, 2011 was 1.02.

Based on the Company's foreign currency exposures noted above, with other variables unchanged, a twenty percent change in the Canadian dollar would have impacted net income as follows:

For the year ended December 31, 2011,

(in thousands of US dollars)	$
Net balance sheet exposure of other operations	**(566)**
Net operating exposure of foreign operations	**930**
Change in net income	**364**

Other comprehensive income (loss) would have changed $100,000 if the value of the Canadian dollar fluctuated by 20% due to the net balance sheet exposure of financial assets and liabilities of foreign operations. The timing and volume of the above transactions as well as the timing of their settlement could impact the sensitivity analysis.

c) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk through its cash and cash equivalents, restricted cash and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents and restricted cash by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for trade and other accounts receivable are managed through established credit monitoring activities. The Company also mitigates its credit risk on trade accounts receivable by obtaining a cash deposit from certain customers with no prior order history with the Company or where the Company perceives the customer has a higher level of risk.

The Company has a concentration of customers in the oil and gas and corrosion sectors. The concentration risk is mitigated by the number of customers and by a significant portion of the customers being large international organizations. As at December 31, 2011 and 2010 no single customer exceeded 10% of the consolidated trade accounts receivable balance. Losses under trade accounts receivable have not historically been significant. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

The Company reviews its trade accounts receivable regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectable. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. Estimates for the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date, taking into account the amounts which are past due and any available relevant information on the customers' liquidity and going concern status. After all efforts of collection have failed, the accounts receivable balance not collected is written off with an offset to the allowance for doubtful accounts, with no impact on net income.

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of $19,472,000 as at December 31, 2011 (December 31, 2010 - $22,124,000). On a geographic basis as at December 31, 2011, approximately 47% (December 31, 2010 – 59%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 53% (December 31, 2010 – 41%) was due from US customers.

Payment terms are generally net 30 days. As at December 31, 2011, the percentages of past due trade accounts receivable were as follows: 27% past due 1 to 30 days (December 31, 2010 – 23%), 12% past due 31 to 60 days (December 31, 2010 – 10%), 8% past due 61 to 90 days (December 31, 2010 – 5%) and 2% past due greater than 90 days (December 31, 2010 – 6%) prior to including the allowance for doubtful accounts. Despite the established payment terms, customers in the oil and gas industry, who represent a significant portion of the customer base for the Company, typically pay amounts within 60 days of the invoice date. Accordingly, it is management's view that amounts outstanding from these customers up to 60 days from the invoice date have a low risk of not being collected.

Included in the accounts receivable balance are balances not considered trade receivables of $436,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2010 - $589,000).

The Company had recorded an allowance for doubtful accounts of $207,000 as at December 31, 2011 (December 31, 2010 - $347,000). The allowance is an estimate of the December 31, 2011 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of $145,000 (2010 - $513,000), offset by payments of $95,000 (2010 - $193,000), write offs of $47,000 (2010 - $nil) and a translation adjustment of $8,000 (2010 - $16,000) for the year ended December 31, 2011.

d) Liquidity risk

The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. On an ongoing basis, liquidity risk is managed by maintaining adequate cash and cash equivalent balances and appropriately utilizing available lines of credit. Management believes that forecasted cash flows from operating activities, along with the available lines of credit, will provide sufficient cash requirements to cover the Company's forecasted normal operating activities, commitments and budgeted capital expenditures.

The Company has pledged as general collateral for advances under the operating credit facility and the bank term loan a general security agreement on present and future assets, guarantees from each present and future direct and indirect subsidiary of the Company supported by a first registered security over all present and future assets, and pledge of shares. The Company is not permitted to sell or re-pledge significant assets held under collateral without consent from the lenders.

The following are the undiscounted contractual maturities of financial liabilities excluding future interest:

(in thousands of dollars)	**Carrying Amount $**	**2012 $**	**2013 $**	**2014 $**	**2015 $**	**2016 $**	**Thereafter $**
Accounts payable, accrued liabilities and provisions	**17,069**	17,069	—	—	—	—	—
Long term debt	**6,274**	1,687	2,999	181	181	181	1,045
Total	**23,343**	18,756	2,999	181	181	181	1,045

Subsequent to the year end, the BDC loan was paid out and the balance of the term loan was increased by $2,000,000 Canadian dollars. For additional details, please refer to note 27.

24. CAPITAL RISK MANAGEMENT

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise. The Company defines capital that it manages as the aggregate of its long term debt and shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive loss and retained earnings.

a) Long term debt and adjusted capital employed

As at

(in thousands of dollars)	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Current portion of long term debt	**1,687**	3,398	2,343
Current portion of preferred shares	**57**	57	—
Long term debt *[note 11]*	**4,587**	7,733	3,003
Preferred shares *[note 12]*	**5,125**	5,125	—
Total long term debt	**11,456**	16,313	5,346
Share capital	**69,862**	69,862	62,395
Contributed surplus	**2,177**	1,669	943
Equity component of preferred shares *[note 12]*	**845**	845	—
Retained earnings	**8,373**	5,083	22,777
Adjusted shareholders' equity	**81,257**	77,459	86,115
Adjusted capital employed	**92,713**	93,772	91,461

Management considers changes in economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities in managing its capital and considers adjustments to its ratio of long term debt to adjusted capital employed when significant changes in these factors are expected. Management considers the ratio of long term debt to adjusted capital employed of 12% as at December 31, 2011 (December 31, 2010 – 17%) to be low. The change since December 31, 2010 reflects the repayments of principal on the term loan of $4,286,000. Adjusted capital employed is defined by the Company as long term debt plus total shareholders' equity excluding accumulated other comprehensive loss.

b) Debt management

Under its long term credit facilities, the Company must maintain a number of financial covenants on a quarterly basis. These covenants include, but are not limited to, a minimum shareholders' equity value, a debt to net tangible worth ratio, a fixed charge ratio and a current ratio. These ratios are calculated in accordance with the credit facility and are not necessarily consistent with figures presented in these consolidated financial statements under IFRS.

The following summarizes the financial ratios mentioned above calculated in accordance with the Company's credit facility:

	December 31, 2011 Actual	December 31, 2011 Required	December 31, 2010 Actual	December 31, 2010 Required
Minimum equity value	$74 million	>$50 million	$70 million	>$50 million
Debt to tangible net worth	0.15	<2.0	0.63	<2.0
Fixed charge coverage ratio	3.93	>1.5	1.18	>1.0
Current ratio	1.92	>1.25	1.63	>1.25

The changes since December 31, 2010 in the bank covenants reflect the net income from continuing operations of $3,454,000 and the repayment of $4,286,000 in long term debt which strengthened the debt to tangible net worth and fixed charge ratios. On an ongoing basis, management expects to continue meeting all financial covenants under its current credit facility.

25. SEGMENTED INFORMATION

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. The Company operates substantially all of its activities in two reportable segments, Underground Fluid Containment ("Underground") and Aboveground Fluid Containment ("Aboveground"). The Company's reportable segments changed with the acquisition of ZCL Dualam on January 4, 2010; therefore there is no comparative information on assets for the January 1, 2010 opening IFRS balance sheet.

Information about reportable segments

For the year ended December 31,

	Underground		**Aboveground**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	**101,590**	97,618	**25,456**	23,956	**127,046**	121,574
Manufacturing and selling costs	**84,234**	84,418	**23,358**	25,498	**107,592**	109,916
Gross profit	**17,356**	13,200	**2,098**	(1,542)	**19,454**	11,658

Manufacturing and selling costs are the only costs that are directly attributable to the Underground and Aboveground operating segments. All other costs are not specifically identifiable to an individual segment and management has determined that there is no rational basis on which to allocate general and administration and other expenses. Only a gross profit measure is reported to the Chief Executive Officer on a regular basis; therefore gross profit is disclosed as the measure of profit.

	Inventories		**Property, plant and equipment**		**Goodwill and intangible assets**	
As at	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Underground	**18,311**	16,376	**20,342**	20,617	**34,031**	35,371
Aboveground	**5,960**	2,383	**5,791**	6,304	**4,211**	4,565
Total	**24,271**	18,759	**26,133**	26,921	**38,242**	39,936

The only assets that can be identified by reportable segments are inventories, property, plant and equipment, goodwill and intangible assets. All other current and long term assets, as well as current and long term liabilities are not segregated into the reportable segments and management has determined that there is no rational basis on which to allocate other assets and liabilities, they are not reported to the Chief Executive Officer and therefore this information is not disclosed.

Information about major customers

The Company has long term contracts and alliance arrangements with many of the major oil and gas companies in Canada and provides products for distributors and retail oil and gas companies in the US. For the year ended December 31, 2011 and 2010, no single customer exceeded 10% of total revenue.

Information about geographic areas

For the years ended December 31,

	Revenues	
	2011	**2010**
(in thousands of dollars)	**$**	**$**
Canada	**55,034**	48,153
United States	**68,382**	67,402
International	**3,630**	6,019
	127,046	121,574

	Total assets		Property, plant and equipment, goodwill and intangible assets	
	2011	**2010**	**2011**	**2010**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Canada	**52,218**	55,597	**26,220**	27,713
United States	**58,898**	58,153	**36,604**	37,084
International	**2,783**	3,879	**1,551**	2,060
	113,899	117,629	**64,375**	66,857

26. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to three cash-generating units ("CGUs") as follows:

- Underground Canada
- Underground US
- Aboveground

Carrying amount of goodwill and intangible assets allocated to each CGU

	Underground Canada		Underground US		Aboveground	
As at	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Goodwill	**1,377**	1,442	**26,586**	25,733	**2,641**	2,454

The Company performed its annual goodwill impairment test as at October 1, 2011. The Company considers the relationship between its fair values less cost to sell ("FVLCS") of its CGUs, to their carrying amounts, among other factors, when reviewing for indicators of impairment. As at October 1, 2011, the FVLCS of the CGUs were above the carrying amounts, indicating there was not an impairment of goodwill in any of the CGUs identified above.

The balances relating to goodwill disclosed above are as at October 1, 2011, the date of the impairment test. Goodwill carried in the Underground US CGU is denominated in US dollars and the carrying amount is subject to fluctuations in the US dollar to Canadian dollar exchange rate, which is why the figures above may differ from the December 31, 2011 carrying amount. There has been no impairment of goodwill recognised in the 2011 year. For details on the goodwill impairment recognized in 2010, refer to notes 4 and 28.

Key assumptions used in the FVLCS calculations
The calculation of the FVLCS for the three CGUs is most sensitive to the following assumptions:

- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period
- Gross profit

Discount rates:
Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the market risks and specific circumstances of the Company and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return of investment by investors. The cost of debt is based on market conditions and the Company's interest bearing borrowings. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data and specific risk premiums are calculated after consideration for the volatility in the revenue streams and the risk factors affecting the predictability of the particular CGU. Discount rate ranges utilized by CGUs are as follows: Underground Canada (15.1% to 15.9%), Underground U.S. (15.4% to 16.2%) and Aboveground (24.6% to 25.4%).

Growth rate estimates:
Growth rates for 2012 are established using the board approved budgeted growth rate by CGU. Longer term growth rates are established using the five-year Strategic Plan for each CGU. Both the 2012 operating budget and the five-year Strategic Plan were calculated using our current prospects and our planned strategic changes expected to be implemented. The growth rate used to extrapolate cash flows beyond the budget period used (five years) is based on Government of Canada target inflation rates and U.S. Federal Reserve long-term inflation expectations (2% for all CGUs).

Gross profit:
Gross profit is based on historical values and is adjusted upwards or downwards depending on expected changes in revenues. As fixed costs remain relatively constant over the short term while revenues increase, gross profits improve over this same period.

Sensitivity to changes in assumptions

Discount rates:
Most rates used within the WACC calculation do not change significantly year to year; however, if the specific risk premium were adjusted in either direction, it would have an effect on the FVLCS of the CGU. This, in turn, would change the excess or deficiency values over the carrying amounts of the CGU. For the Underground Canada CGU, the specific risk premium would need to increase 19% in the worst case scenario before a deficiency would be created. For the Underground US CGU, the specific risk premium would need to increase 14% and with the Aboveground CGU, the specific risk premium would need to increase 73% over the current worst case scenario before a deficiency over the carrying value would be created.

Growth rate and gross profit assumptions:
Sales growth rates used were very modest; however, any reduction in the sales growth rate would have a negative impact on the FVLCS of the overall CGUs. Similarly, gross profits as a percentage of revenues used were in line with historical rates realized by the CGUs. For the Underground Canada CGU, gross profit would have to fall to 91% of our current expectations; the Underground U.S. CGU would have to fall to 93%; and the gross profit for the Aboveground CGU would have to fall to 63% of its current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2011, the recoverable amount of the Company's CGUs exceeded their carrying amounts by a substantial amount. With regard to the assessment of fair value less costs to sell, management believes that no reasonably possible change in any of the above key assumptions would have caused the carrying amount of the CGUs to materially exceed its recoverable amount.

27. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Company paid out the long term credit facility with the BDC. This loan carried an interest rate of 25 basis points above the BDC base rate. To fund the payout, the Company increased the balance of the term loan by $2,000,000 which carries an interest rate of 250 basis points above the US dollar LIBOR rate and matures in May of 2013.

28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As discussed in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011 and the comparative information for the year ended December 31, 2010. They were also used in the preparation of the consolidated balance sheet presented for the opening consolidated IFRS balance sheet date on January 1, 2010 ("the transition date").

In preparing the consolidated financial statements, the comparative information for the year ended December 31, 2010 has been adjusted from the amounts previously reported under previous GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's consolidated balance sheets and statements of comprehensive loss is presented below:

Key first time adoption exemptions applied:

IFRS 1: "First time Adoption of International Financial Reporting Standards" allows first time adopters certain exemptions from retrospective application of certain IFRS. The Company has applied the following exemptions:

a) IFRS 3: "Business Combinations" has not been applied retrospectively to acquisitions of subsidiaries that occurred prior to the transition date to IFRS.
b) Certain parcels of land grouped in with property, plant and equipment have been adjusted to their fair value based on land valuations performed by external land valuators. The Company has elected to regard those fair values as deemed cost at the date of transition to IFRS.
c) The Company has elected not to reassess arrangements under IFRS Interpretations Committee Update ("IFRIC") 4: "Determining Whether an Arrangement Contains a Lease" that were assessed under previous GAAP in the same manner as required by IFRIC 4 and to apply the transitional provisions in IFRIC 4 to those that were not.
d) IFRS 2: "Share-based Payments" has not been applied retrospectively for stock options that had vested prior to the transition date.

Reconciliation of Equity

As at January 1, 2010 (date of transition to IFRS)

(in thousands of dollars)	Previous GAAP $	Re-measurements $	IFRS $
ASSETS			
Current			
Cash and cash equivalents	2,868	—	**2,868**
Accounts receivable	14,228	—	**14,228**
Inventories	19,943	—	**19,943**
Income taxes recoverable	1,650	—	**1,650**
Prepaid expenses *[note 28a]*	1,072	(109)	**963**
	39,761	(109)	**39,652**
Property, plant and equipment *[note 28c]*	23,269	2,664	**25,933**
Intangible assets	9,481	—	**9,481**
Goodwill	28,997	—	**28,997**
Restricted cash	262	—	**262**
Other assets *[note 28f]*	893	(435)	**458**
TOTAL ASSETS	102,663	2,120	**104,783**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	1,477	—	**1,477**
Accounts payable and accrued liabilities	11,040	(660)	**10,380**
Income taxes payable	8	—	**8**
Deferred revenue	1,805	—	**1,805**
Current portion of provisions	—	286	**286**
Current portion of long term debt	2,343	—	**2,343**
	16,673	(374)	**16,299**
Deferred tax liabilities *[note 28b]*	4,343	88	**4,431**
Long term portion of provisions	—	374	**374**
Long term debt	3,003	—	**3,003**
TOTAL LIABILITIES	24,019	88	**24,107**
Shareholders' equity			
Share capital	62,395	—	**62,395**
Contributed surplus *[note 28g]*	873	70	**943**
Accumulated other comprehensive loss	(5,387)	(52)	**(5,439)**
Retained earnings	20,763	2,014	**22,777**
TOTAL SHAREHOLDERS' EQUITY	78,644	2,032	**80,676**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	102,663	2,120	**104,783**

Reconciliation of Equity

As at December 31, 2010

(in thousands of dollars)	Previous GAAP $	Re-measurements $	IFRS $
ASSETS			
Current			
Cash and cash equivalents	2,105	—	**2,105**
Accounts receivable	22,722	—	**22,722**
Inventories	18,759	—	**18,759**
Income taxes recoverable	3,311	—	**3,311**
Prepaid expenses *[note 28a]*	1,060	(136)	**924**
	47,957	(136)	**47,821**
Property, plant and equipment *[note 28c]*	24,441	2,480	**26,921**
Assets held for sale	946	—	**946**
Intangible assets *[note 28d]*	14,051	(3,935)	**10,116**
Goodwill	29,820	—	**29,820**
Restricted cash	250	—	**250**
Other assets	1,755	—	**1,755**
TOTAL ASSETS	119,220	(1,591)	**117,629**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	8,565	—	**8,565**
Accounts payable and accrued liabilities	16,342	(753)	**15,589**
Income taxes payable	27	—	**27**
Deferred revenue	1,935	—	**1,935**
Current portion of provisions	—	434	**434**
Current portion of long term debt	3,398	—	**3,398**
Current portion of preferred shares	57	—	**57**
	30,324	(319)	**30,005**
Deferred tax liabilities *[note 28b]*	5,921	(1,073)	**4,848**
Long term portion of provisions	—	319	**319**
Long term debt	7,733	—	**7,733**
Preferred shares	5,125	—	**5,125**
TOTAL LIABILITIES	49,103	(1,073)	**48,030**
Shareholders' equity			
Share capital	69,862	—	**69,862**
Contributed surplus *[note 28g]*	1,386	283	**1,669**
Equity component of preferred shares	845	—	**845**
Accumulated other comprehensive loss	(7,564)	(296)	**(7,860)**
Retained earnings	5,588	(505)	**5,083**
TOTAL SHAREHOLDERS' EQUITY	70,117	(518)	**69,599**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	119,220	(1,591)	**117,629**

Reconciliation of Total Comprehensive Loss

For the year ended December 31, 2010

(in thousands of dollars)	Previous GAAP $	Re-measurements $	IFRS $
Revenue	121,574	—	**121,574**
Manufacturing and selling costs *[note 28g]*	109,823	93	**109,916**
Gross profit	11,751	(93)	**11,658**
General and administration *[notes 27f and g]*	10,974	420	**11,394**
Foreign exchange loss *[note 28c]*	597	(101)	**496**
Depreciation *[notes 28c and d]*	5,007	(215)	**4,792**
Interest expense	1,363	—	**1,363**
Loss on disposal of assets	10	—	**10**
Impairment of assets *[notes 28d & e]*	10,805	3,488	**14,293**
	28,756	3,592	**32,348**
Loss before income taxes	(17,005)	(3,685)	**(20,690)**
Income tax recovery			
Current	(1,692)	32	**(1,660)**
Deferred	(1,132)	(1,198)	**(2,330)**
	(2,824)	(1,166)	**(3,990)**
Net loss from continuing operations	(14,181)	(2,519)	**(16,700)**
Net loss from discontinued operations	(149)	—	**(149)**
Net loss	(14,330)	(2,519)	**(16,849)**
Other comprehensive loss			
Exchange differences on translation of foreign operations	(2,177)	(244)	**(2,421)**
Total comprehensive loss	(16,507)	(2,763)	**(19,270)**

There were no material changes to the year ended December 31, 2010 statement of cash flows attributable to the IFRS conversion.

a) Prepaid expenses

Under previous GAAP, the Company did not recognize any temporary differences arising from a transfer of assets within the consolidated group until there was a transfer outside of the consolidated group. The taxes paid/payable relating to unrealized profits on inter-group parabeam sales were recognized as prepaid taxes under previous GAAP. By contrast, IFRS requires that deferred taxes are recognized on unrealized profits for the intergroup transactions. Accordingly, related prepaid expenses are derecognised and deferred tax assets are recognized at tax rates in applicable purchasers' jurisdictions.

b) Deferred tax assets and deferred tax liabilities

A summary of the items affecting the deferred tax asset and liability balances is presented below:

As at (in thousands of dollars)	**December 31, 2010** **$**	**January 1, 2010** **$**
Temporary differences arising on increased carrying amount of land (see note 28c for further explanation)	(347)	(347)
Reduction of temporary difference on expensing acquisition costs	190	113
Deferred taxes recognized on profit from intra-group transfers of asset.	195	146
Change in carrying value of property, plant and equipment and intangible assets of ZCL Dualam on IFRS transition	1,020	—
Other foreign exchange translation differences	15	—
Net deferred tax differences on IFRS transition	**1,073**	**(88)**

c) Property, plant and equipment

Upon transition to IFRS, the Company elected to use the fair value of certain parcels of land as deemed cost as allowed under the IFRS 1: "First Time Adoption of International Financial Reporting Standards". This resulted in increasing the carrying value of property, plant and equipment by $2,664,000, with the corresponding adjustment recorded in opening retained earnings as at the transition date.

Under IAS 21: "The Effects of Changes in Foreign Exchange Rates", the Company is translating the consolidated assets and liabilities of its Parabeam and Radigan subsidiaries using the current rate method whereas under previous GAAP the temporal method was used. The corresponding adjustments have been recognized in the accumulated other comprehensive loss and the opening retained earnings balance at the transition date.

d) Intangible assets

On September 30, 2010, the Company conducted an impairment test on the intangible assets relating to the ZCL Dualam operations. Using the guidance available under previous GAAP, the customer relationships, trade names and non-patented technology intangible assets were not considered impaired as their expected undiscounted cash-flows (recoverability test) exceeded their carrying value as at September 30, 2010.

The impairment test under IFRS requires the use of a discounted cash flow forecast in order to estimate the fair value of the intangible assets. This fair value is then compared to the carrying amount as at September 30, 2010. The IFRS impairment test resulted in an additional impairment loss of $4,067,000. Subsequent to September 30, 2010, the lower carrying amount resulted in reduced depreciation expense on the impaired intangible assets of $132,000.

e) Goodwill

On September 30, 2010, the Company conducted an impairment test on the goodwill relating to the ZCL Dualam cash generating unit. This resulted in recording an impairment loss of $12,692,000. The impairment loss under previous GAAP was $10,271,000 for a difference of $2,421,000; however the carrying value of goodwill is the same under both IFRS and previous GAAP as at December 31, 2010. For additional details on the goodwill impairment, refer to note 4.

f) Other assets

Previous GAAP requires capitalization of acquisition costs related to business combinations while IFRS does not allow the capitalization of such costs. The costs of $434,000 related to the ZCL Dualam purchase are derecognised as at the transition date under IFRS. In addition to the derecognition, general and administrative expenses were increased by $301,000 due to expensing professional fees incurred relating to the acquisition during the 2010 fiscal year.

g) Share-based payments

Upon transition to IFRS, the Company used the graded vesting model for expensing unvested equity-settled stock options as at the January 1, 2010 transition date. This resulted in the following impacts to the total comprehensive loss and consolidated balance sheets.

Impact on the consolidated balance sheets:

As at (in thousands of dollars)	**December 31, 2010 $**	**January 1, 2010 $**
Contributed surplus	283	70
Retained earnings	(70)	(70)
Net impact on closing equity	**213**	**—**

Impact on total comprehensive loss:

For the year ending (in thousands of dollars)	**December 31, 2010 $**
Increase in manufacturing and selling costs	94
Increase in general and administration expense	119
Net impact on total comprehensive loss	**213**

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