ZCL®
COMPOSITES INC.
Annual Report
2012
making a lasting difference®

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Message to Shareholders

As we bring 2012 to a close, a year in which ZCL celebrated its 25th Anniversary, we are pleased to report that ZCL achieved annual records for both revenues ($170.4 million) and earnings (net income of $13.5 million or EPS of $0.47 per share). These numbers are a visible demonstration of the successful execution on our "simplify to grow" strategy and all of us at ZCL are proud to deliver these results for our shareholders.

All of our product groups – Petroleum, Water, and Corrosion – and all of the ZCL brands – ZCL, Xerxes, Parabeam, ZCL Troy, and ZCL Dualam – contributed to our strong 2012 results. Specific areas of achievement in 2012 were noted in a doubling of our Corrosion Products group's sales into the Oil Sands market, 130% growth of our Corrosion Products group's sales into the chemical processing and power generation markets, 27% growth in our Petroleum Products group's sales into the US downstream market, and 24% growth in our Water Products group's sales in Canada.

The ZCL Board of Directors continues to review ZCL's dividend policy, with a steadfast philosophy of maintaining a balance between fiscal prudence and the sharing of improved results. I am pleased to report that the Board has elected to increase the quarterly dividend payment by 25% to $0.025 per share, up from $0.02 per share in the previous quarter.

I would like to take this opportunity to extend my personal thanks to Rod Graham, ZCL's President and CEO through August 8th of this year, for being the agent for change that ZCL needed at a time when we were struggling. His clear message of the need to deliver increased profitability, and the strong leadership he exhibited during his tenure as President and CEO, contributed greatly to the record results ZCL achieved in 2012.

As we look forward to 2013, our focus will be on continued profitable growth through our "simplify to grow" strategy. We continue to have a special focus on reducing our manufacturing costs in the areas of indirect labor, indirect materials, and overtime. We met our 2012 goal of increasing gross margins by a minimum of two percent, and we have set a similar goal for gross margin improvement in 2013. Although we remain committed to our core product groups and our core markets, we also continue to search out new challenges and opportunities for innovation. Our success over the past two years with Diesel Exhaust Fluid (DEF) bulk underground storage tanks is a prime example of how ZCL has innovated to bring new product solutions to our customers.

The coming year will not be without challenge as certain of our markets have some uncertainty facing them, particularly in the Oil Sands. However, all of us at ZCL embrace the challenges ahead and we are confident that we will stay on course in 2013.

Ron Bachmeier

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, 2012, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2012. The statements are available on SEDAR at www.sedar.com or the Company's website at www.zcl.com.

The Company's audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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. Gross profit, gross margin, EBITDA, cash from continuing operations, working capital, net debt 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, 2013.

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 three product groups, Petroleum Products, Water Products and Corrosion Products and continues to leverage off the strong brand identities of ZCL, Xerxes, Parabeam, ZCL Dualam and ZCL Troy.

The Petroleum and Water Products groups 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. Corrosion Products are included in the Aboveground Fluid Containment ("Aboveground") operating segment and use the brand identities of ZCL Corrosion, ZCL Dualam and ZCL 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 system allows in-situ upgrades of steel or fibreglass tanks to either a secondary containment system or a fully self-supporting double wall tank. 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 collection, large diameter wet wells and lift stations, grease interceptors and storm water retention systems**.**

Aboveground Fluid Containment

Corrosion Products

ZCL manufactures custom designed and engineered 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.

OVERALL PERFORMANCE & OUTLOOK

ZCL celebrated its 25th anniversary in 2012 with a very strong year, achieving record revenue, net income and earnings per share for the year ended December 31, 2012. As a result of the strong performance in 2012, our Board has elected to increase the quarterly dividend by 25%, or $0.005 per share, to $0.025 per share.

Financial Results

Revenue

Revenue for the year ended December 31, 2012 was $170.4 million, up $43.3 million or 34% from $127.0 million for the year ended December 31, 2011. The increase was attributable to both the Underground and Aboveground operating segments. The Petroleum and Corrosion Products groups achieved record revenue with Petroleum Products up 14% from a year earlier and Corrosion Products up 120% from a year earlier. The Water Products group realized moderate revenue growth in 2012 with a 5% increase over the revenue earned in 2011.

Gross Profit

Gross profit for the year ended December 31, 2012 was $29.9 million, up $10.5 million or 54% from $19.5 million a year earlier. Gross margin increased to 18% of revenue for 2012, up from 15% a year earlier, with the increase coming primarily from the Aboveground operating segment and from improved production efficiencies overall.

Net Income

Net income for the year ended December 31, 2012 was $13.5 million, up $10.2 million or 310% from $3.3 million a year earlier. Net income per diluted share for 2012 was $0.46, up $0.35 from $0.11 per diluted share a year earlier. The improvement was attributable to a significant increase in revenue, increased gross profit, lower general and administration expenses, reduced finance expenses and certain non-recurring items relating to the preferred share redemption that occurred in the second quarter of 2012.

Net Debt

Net debt was eliminated as at December 31, 2012, as cash and cash equivalents more than offset debt, a significant improvement over the $4.6 million net debt balance as at December 31, 2011. In addition, the preferred shares on hand at December 31, 2011 of $5.1 million, which were not a calculated component of net debt, were redeemed in full during 2012.

Management expects the net debt balance to continue to fluctuate due to the inherent seasonality and timing of working capital requirements of the business.

Dividends

With the continued improvement in the financial results, the Board elected to increase the quarterly dividend payment by 25% to $0.025 per share, up from $0.02 per share in the previous quarter. The dividend will be paid on April 15, 2013, to the shareholders of record as of March 28, 2013.

Backlog

($millions)	December 31
2012	35.2
2011	42.2
% change	(17%)

The December 31, 2012 backlog of $35.2 million is down $7.0 million or 17% from $42.2 million a year earlier. The decrease is attributable to a decline in the Aboveground segment, which more than offset a small gain in Underground backlog.

The main factor in the Aboveground backlog decrease is the completion of a large low margin order that accounted for $6.9 million of the December 31, 2011

backlog. As mentioned in previous MD&As, the nature of revenues in the Aboveground operating segment is more dependent on larger orders which leads to higher volatility in the backlog when comparing points in time.

In the Underground segment, the US operations saw an increase in backlog of $3.4 million prior to a negative foreign exchange conversion impact of $0.4 million. For Canadian Underground operations, backlog decreased by $2.6 million from 2011, primarily due to the timing of accepting certain significant pre-orders. The December 31, 2011 Canadian Underground backlog included two large pre-orders for the 2012 year. At December 31, 2012, similar orders were still being negotiated and were obtained in the first quarter of 2013.

On a sequential basis, the total backlog declined by $12.3 million from $47.5 million at September 30, 2012 due to the traditional seasonal factors affecting ZCL's business and the variability in order bookings of the Corrosion Products group noted above.

Conversion of backlog to revenue for the Underground segment is generally realized in the following quarter. For Aboveground, the conversion of backlog to revenue is less predictable because of variable timelines for design, engineering and production.

Outlook

ZCL's sales in 2012 increased by 34%, thereby exceeding our annual revenue growth targets previously disclosed for 2012. ZCL also achieved an EBITDA margin of 13%, attaining the lower end of the company's previously disclosed target range for EBITDA as a percentage of revenue. For 2013, we continue to focus on profitable growth through our "simplify to grow" strategy. Our strategic priorities are now more directly focused on improving profitability.

The five key aspects of the 2013 strategic plan include:

- Focus on quality:
  - Improve our quality control processes through lean initiatives in order to reduce rework and disruptions in the production flow.
- Improve profitability:
  - Exceed the 13% EBITDA achieved in 2012 and improve gross margins as a percentage of revenue by 2%.
- Meet deliveries and reduce lead times:
  - Meet 100% of the customer delivery requirements and shorten lead times by 25% in order to improve the flexibility of the plants and responsiveness to customers.
- Expand employee integration:
  - Refine our employee compensation package to further align employee goals and objectives with our strategic priorities and shareholder interests.
- Continued focus on safety:
  - Continuation of the standardization of our safety policies, procedures and metrics.

The changes made to high-grade our customer mix, improve our raw materials procurement strategy, level load our plants, increase plant efficiencies, tighten discretionary spending and incent our employees on the metric of EBITDA are still in place and are being built upon with improvements our new COO is introducing to the operations.

Our outlook by product groups is as follows:

Petroleum Products

Petroleum Products is our largest revenue group and most mature market. Backlog is still strong and management expects to see moderate growth in this product group, particularly with our US customers.

Water Products

Management expects Water Products to continue to recover throughout 2013 and we expect to see modest revenue growth in this product group. However, this market is dependent on continued recovery in the construction industry, particularly in the US, and has been affected by a reduction in infrastructure spending at all levels of government.

Corrosion Products

Corrosion Products continues to represent the largest long term opportunity for growth due to forecasted future capital spending in the Oil Sands market and continued recovery in the power generation and industrial chemical markets driven by low natural gas pricing. However, we do not expect short term growth to replicate the very strong 2012 year due to global economic uncertainty.

Short term growth in the Oil Sands market may be constrained due to the current high differential for oil produced in Western Canada. For Industrial Corrosion, after eliminating the impact of approximately $11.5 million of very low margin revenue earned in 2012, in 2013 management expects Corrosion Products revenue growth and increased profitability as we refine our production processes. The low margin jobs produced and delivered throughout 2012 were accepted with the understanding that the low margin products orders would lead to higher margin field work. This expectation has come to fruition.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Year Ended December 31 2012 $	2011 $	2010 $
Operating Results			
Underground Fluid Containment revenue	**114,442**	101,590	97,618
Aboveground Fluid Containment revenue	**55,917**	25,456	23,956
Total revenue	**170,359**	127,046	121,574
Gross profit (*note 1*)	**29,919**	19,454	11,658
% of revenue	***18%***	*15%*	*10%*
General and administration	**8,571**	9,986	11,394
Foreign exchange loss (gain)	**43**	(373)	496
Depreciation, amortization and finance expense	**4,443**	5,589	6,155
(Gain) loss on disposal of assets	**(246)**	(356)	10
Gain on redemption of preferred shares	**(670)**	-	-
Impairment of assets	**182**	-	14,293
Other items	**(638)**	-	-
Income tax expense (recovery)	**4,744**	1,154	(3,990)
Net income (loss) from continuing operations	**13,490**	3,454	(16,700)
Net loss from discontinued operations	**-**	(164)	(149)
Net income (loss)	**13,490**	3,290	(16,849)
Earnings (loss) per share from continuing operations			
Basic	**0.47**	0.12	(0.59)
Diluted	**0.46**	0.12	(0.59)
Cash dividends declared per common share	**0.055**	-	-
EBITDA (*note 1*)	**22,518**	10,349	2,539
% of revenue	***13%***	*8%*	*2%*
Cash Flows			
Funds from continuing operations (*note 1 & 2*)	**15,152**	8,417	891
Changes in non-cash working capital	**(5,355)**	4,782	(374)
Net advance (repayment) of:			
Bank indebtedness	**-**	(8,565)	6,092
Long term debt	**(1,376)**	(4,824)	828
Redemption of preferred shares	**(2,075)**	-	-
Issuance of common shares	**847**	-	-
Dividends paid	**(1,010)**	-	-
Purchase of capital and intangible assets	**(3,057)**	(1,778)	(2,063)
Disposal of assets	**247**	633	1,940
Business acquisition, net of disposals	**-**	1,336	(7,868)

(in thousands of dollars)	As at December 31 2012 $	2011 $	2010 $
Financial Position			
Working capital *(note 1)*	**31,655**	23,387	17,816
Total assets	**120,526**	113,899	117,629
Net debt *(note 1)*	**-**	4,567	17,591
Net cash and cash equivalents *(note 1)*	**84**	-	-
Total non-current liabilities	**8,618**	15,229	18,025

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

Note 2: Funds from continuing operations excludes changes in non-cash working capital.

RESULTS OF OPERATIONS

Revenue

($000s)	Twelve Months 2012	2011	% change
Underground Fluid Containment:			
Petroleum Products	**98,601**	86,468	14%
Water Products	**15,841**	15,122	5%
	114,442	101,590	13%
Aboveground Fluid Containment:			
Corrosion Products	**55,917**	25,456	120%
	170,359	127,046	34%

Revenue was up $43.3 million or 34% for the year ended December 31, 2012, as compared to the prior year. The increase in revenue was broad based across all three product groups, but the majority of the increase came from Corrosion Products. The increase in revenue from the prior year reflects the factors noted below:

Underground Fluid Containment

Underground revenue of $114.4 million, was $12.9 million or 13% higher for the year ended December 31, 2012, compared with the year ended December 31, 2011.

The $12.1 million or 14% increase in Petroleum Products revenue was attributable to the US operations with an increase of $14.2 million or 26%, prior to a positive foreign exchange conversion impact for reporting purposes. In the US, sales to independent service station customers were up 42% over 2011 revenue, due to increased demand for FRP petroleum tanks, particularly in the north-eastern US. Sales to US distributors for 2012 were down slightly compared to 2011.

Canadian Petroleum Products revenue in 2012 was down 10% from 2011 with the majority of the reduction incurred in the fourth quarter of 2012. Lower sales to independent service station customers and contractors were the major cause for this decrease. Sales to major oil customers and distributors were consistent year over year.

Petroleum Products revenue also includes revenue from international operations which was $0.7 million higher in 2012 than 2011.

The 5% increase in Water Products revenue in 2012 compared with 2011 was attributable to Canadian sales, which rose by $0.7 million or 24% compared with 2011. US Water Products sales were flat.

Aboveground Fluid Containment

Aboveground revenue of $55.9 million was $30.5 million or 120% higher than a year earlier, with the increase coming from both Canada and the US. Specific areas of achievement in the Corrosion Products group in 2012 included a doubling of sales into the Oil Sands market and 130% growth of sales into the industrial corrosion markets, as compared to 2011.

The Aboveground Corrosion Products are more dependent on larger orders that are longer term in nature than the Underground operating segment.

Gross Profit

($000s)	Twelve months 2012	2011	% change	% of rev 2012
Underground Fluid Containment	**20,423**	17,356	18%	18%
Aboveground Fluid Containment	**9,496**	2,098	353%	17%
	29,919	19,454	54%	18%

In 2012, gross profit of $29.9 million increased by $10.5 million or 54% compared to 2011. Gross margin increased to 18% from 15% in 2011. The changes reflected the factors discussed below:

Underground Fluid Containment

Underground gross profit of $20.4 million increased $3.1 million or 18% in the year ended December 31, 2012 as compared to the year ended December 31, 2011. Gross profit as a percentage of sales increased to 18%, up from 17% a year earlier.

The US Underground operations were responsible for the bulk of gross profit increase. The increase in revenue without a correlating increase in fixed costs as a percentage of revenue accounted for part of the increase, but was dampened due to customer mix issues.

In the Canadian Underground operations, gross profit and gross margin were flat with margins earned in 2011 reflecting customer mix factors and competitive pricing pressures. Profitability in the Canadian operations was also affected by management's deliberate decision to shift manufacturing of some lower margin tanks for US customers to the Canadian operations. This was done to meet short lead time deliveries and to optimize the overall revenue and gross profit of the Underground operating segment.

Aboveground Fluid Containment

The Aboveground gross profit of $9.5 million was an increase of $7.4 million or 353% over the year ended December 31, 2011. Gross margin of 17% improved from 8% in 2011. The year over year improvement in gross profit was derived from both the Canadian and US operations. While the Aboveground operations for 2012 showed a significant improvement over the low margins realized in 2011, they were still impacted by a significant low margin order that was recognized in 2012.

General and Administration

($000s)	Twelve months
2012	8,571
2011	9,986
% change	(14%)

General and administration ("G&A") expense for the year ended December 31, 2012, decreased $1.4 million or 14% over the year ended December 31, 2011. The reduction in G&A for 2012 compared to 2011 reflected the result of a continued focus on cost controls and cost saving initiatives management implemented in 2011.

Foreign Exchange Loss (Gain)

($000s)	Twelve months
2012	43
2011	(373)

The foreign exchange loss (gain) for each year primarily related 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	2012		2011			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	1.00	1.00	0.99	0.97	1%	3%
Q2	1.01	1.03	0.97	0.98	4%	5%
Q3	1.00	0.98	0.98	1.03	2%	(5%)
Q4	0.99	1.00	1.02	1.02	(3%)	(2%)

euro Conversion Rates

Year Ended	2012		2011			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	1.31	1.33	1.35	1.37	(3%)	(3%)
Q2	1.30	1.29	1.39	1.41	(6%)	(9%)
Q3	1.25	1.27	1.39	1.40	(10%)	(9%)
Q4	1.29	1.32	1.38	1.32	(7%)	-

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 and Amortization

($000s)	Twelve months
2012	3,673
2011	4,317
% change	(15%)

The 15% reduction in depreciation and amortization expense for the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily resulted from a lower cost base in intangible assets. The Xerxes acquisition occurred more than five years ago, and certain of the intangible assets purchased are now fully amortized.

Finance Expense

($000s)	Twelve months
2012	770
2011	1,272
% change	(39%)

The $0.5 million or 39% reduction in finance expense in 2012 as compared to 2011, resulted from a reduction in net debt as compared to 2011, and a reduction in the borrowing rate on the term loan achieved through converting the term loan to a US based LIBOR loan in the third quarter of 2011. In addition, the cost of financing was reduced through the early repayment of the Business Development Bank of Canada ("BDC") loan that occurred during the first quarter of 2012 and the redemption of the preferred shares that occurred in June of 2012.

Disposal of Assets, Redemption of Preferred Shares and Other Items

During the year ended December 31, 2012, management entered into an agreement with the former owner of DPI, now ZCL-Dualam Inc., dealing with matters that had arisen subsequent to the purchase of DPI. The agreement resulted in the redemption of the preferred shares for a gain of $0.7 million, the sale back of two former DPI

properties for a gain of $0.3 million and the settlement of claims for proceeds of $1.3 million. Certain of the claims had been previously expensed resulting in a recovery of other items. The balance of the settlement of claims is included in provisions.

Impairment of assets

During the year ended December 31, 2012, the carrying value of an internally developed mold for the Underground operating segment was recorded as an impairment loss of $0.2 million. The mold was unable to produce a tank that met ZCL's stringent internal product quality standards required for underground petroleum storage.

Income Taxes

Income tax expense for the year ended December 31, 2012, represented 26% of pre-tax income, compared to 25% of pre-tax income in 2011. The effective tax rate has increased in 2012 as a result of the change in the mix of taxable income between the Canadian and US tax jurisdictions. This increase was partially offset by the gain on disposal of assets and redemption of preferred shares incurred in 2012, as these gains are taxed at a lower rate than the operating income.

Other Comprehensive (Loss) Income

Other comprehensive (loss) income for each year 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 table below details other comprehensive (loss) income before the impact of net income in the period.

($000s)	**Twelve months**
2012	(954)
2011	787

The other comprehensive loss in 2012 was due to the weakening of the US dollar relative to the Canadian dollar throughout the twelve months from 1.02 to 1.00. By contrast, in 2011, the US dollar strengthened from 1.00 to 1.02 and therefore generated other comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2012, the Company increased working capital (current assets less current liabilities) by $8.2 million to $31.7 million compared to $23.4 million as at December 31, 2011. This improvement is the result of increases in accounts receivable, offset partially by decreases in inventory, increases in accounts payable and accrued liabilities, dividends payable and income taxes payable.

As at December 31, 2012, the Company had cash and cash equivalents of $4.8 million (December 31, 2011 - $1.7 million).

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 funds 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, 2014.

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, 2014. The interest charged on the loan is the US dollar based 30 day 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 year ended December 31, 2012, the Company repaid $1.9 million of long term debt outstanding on the BDC loan by increasing its existing term loan. This had the effect of lowering total borrowing costs, reducing the repayment term, as well as, providing additional natural hedges against the Company's net foreign exchange exposure to the US dollar.

The Company also redeemed all outstanding preferred shares during the second quarter of 2012. This redemption reduced the corporate cost of capital by settling the $5.1 million long term liability associated with the preferred shares through a net $2.1 million increase in the Company's operating credit facility. In addition, the preferred shares carried a fixed 4.4% non-tax deductible cumulative dividend. The interest on the credit facility is tax deductible and carries an interest rate of prime plus 100 basis points.

Share Capital

During the year ended December 31, 2012, the company issued 232,983 shares on the exercise of stock options.

Cash Flows

	Twelve Months	
($000's)	**2012**	**2011**
Operating activities	**9,797**	13,199
Financing activities	**(3,614)**	(13,389)
Investing activities	**(2,810)**	191
Foreign exchange[1]	**(234)**	(223)
Discontinued operations	-	(176)
	3,139	(398)

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

Operating Activities

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

Funds from continuing operations totalled $15.2 million for the year ended December 31, 2012 compared to $8.4 million for the year ended December 31, 2011. The increase relative to 2011 is due primarily to the improvement in net income from continuing operations in both operating segments.

During the year ended December 31, 2012, the Company redeemed the preferred shares issued on the acquisition of ZCL Dualam. The settlement of certain claims formed part of the consideration on the redemption of the preferred shares. The fair value of settled items totalled $1.3 million, and is adjusted in the cash from operations section of the cash flow statement as these were non-cash transactions effecting net income and working capital. For additional details on the convertible preferred share redemption, refer to note 12 of the consolidated financial statements.

Changes in non-cash working capital totalled negative $5.4 million for the year ended December 31, 2012, compared to $4.8 million for the year ended December 31, 2011. The increase in accounts receivable for the year ended December 31, 2012 was the major contributing factor for the decrease when compared to the year ended December 31, 2011. This was partially offset by an increase in accounts payable and a decrease in inventories.

Financing Activities

Cash flows from financing activities totaled negative $3.6 million for the year ended December 31, 2012, due to the redemption of the preferred shares, a net repayment of long term debt and payment of dividends. In the year ended December 31, 2011, cash flows from financing activities totalled negative $13.4 million due to repayments of bank indebtedness and repayment of long term debt of $4.8 million during the year then ended.

Investing Activities

The cash flows from investing activities were negative $2.8 million in 2012 compared to $0.2 million during 2011. The 2011 year included $1.3 million in cash proceeds on the repatriation of a loan receivable relating to the Home Heating Oil Tank division sale which occurred in 2010. Additions of property, plant and equipment were also $1.2 million higher in 2012 relative to 2011.

Contractual Obligations

The Company's captive insurance company, Radigan Insurance Inc. ("Radigan") provides insurance protection for product warranties and general liability coverage for the US operations. Radigan holds restricted cash equivalents of $0.25 million US as 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 two letters of credit for a total 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, 2012 the issued performance letters of credit totalled $1.5 million.

As at December 31, 2012, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled approximately $7.8 million.

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

($000s)	Long Term Debt	Operating Leases	Total
2013	1,350	2,558	3,908
2014	3,412	2,156	5,568
2015	-	1,314	1,314
2016	-	997	997
2017	-	514	514
Thereafter	-	292	292
Total	4,762	7,831	12,593

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 1.03 in the third quarter of 2011 and second quarter of 2012.

For the three months ended	**2012**				**2011**			
(in thousands of dollars, except per share amounts)	**Dec 31 $**	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**	**Dec 31 $**	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**
Revenue	44,866	50,067	42,850	32,576	37,716	36,352	29,820	23,158
Net income (loss)								
Continuing operations	2,876	4,805	4,207	1,602	1,840	1,892	969	(1,247)
Discontinued operations[1]	-	-	-	-	-	-	(181)	17
Total	2,876	4,805	4,207	1,602	1,840	1,892	788	(1,230)
Basic earnings (loss) per share								
Continuing operations	0.10	0.17	0.15	0.06	0.06	0.07	0.03	(0.04)
Total	0.10	0.17	0.15	0.06	0.06	0.07	0.02	(0.04)
Diluted earnings (loss) per share								
Continuing operations	0.10	0.16	0.15	0.06	0.06	0.07	0.03	(0.04)
Total	0.10	0.16	0.15	0.06	0.06	0.07	0.02	(0.04)
Dividends declared per share	0.02	0.015	0.01	0.01	-	-	-	-

(1) The discontinued operation is the steel tank division which was sold May 31, 2011 because it was not part of ZCL's core business.

FOURTH QUARTER RESULTS

Selected Financial Information

	Fourth Quarter Ended December 31	
(in thousands of dollars,	**2012**	**2011**
except per share amounts)	**$**	**$**
Operating Results		
Revenue		
Underground fluid containment	**29,231**	29,670
Aboveground fluid containment	**15,635**	8,046
Total Revenue	**44,866**	37,716
Gross profit (*note 1*)	**7,662**	6,188
% of revenue	***17%***	*16%*
General and administration	**2,406**	2,120
Foreign exchange loss	**15**	16
Depreciation and amortization	**931**	1,212
Finance expense	**153**	256
Loss on disposal of assets	**10**	16
Impairment of assets	**182**	-
Income tax expense	**1,089**	728
Net income	**2,876**	1,840
Earnings per share		
Basic	**0.10**	0.06
Diluted	**0.10**	0.06
EBITDA (*note 1*)	**5,386**	4,172
% of revenue	***12%***	*11%*
Cash Flows		
Funds from continuing operations (*note 1 & 2*)	**4,167**	4,011
Changes in non-cash working capital	**5,421**	4,926
Net advance (repayment) of:		
Bank indebtedness	**(5,454)**	(8,924)
Long term debt	**(337)**	(763)
Issuance of common shares	**463**	-
Dividends paid	**(434)**	-
Purchase of capital and intangible assets	**(1,222)**	(503)
Disposal of assets	**182**	-

Note 1: Gross profit, EBITDA, and funds from continuing operations are non-IFRS measures and are defined later in the MD&A under "Non-IFRS Measures."

Note 2: Funds from continuing operations excludes changes in non-cash working capital.

Overall Fourth Quarter Performance

Net income in the fourth quarter of 2012 was $2.8 million, up 56% from $1.8 million a year earlier. Earnings per diluted share in the fourth quarter of 2012 were $0.10, up $0.04 from $0.06 per diluted share a year earlier. The increase reflected higher revenues, an improvement in gross profit and a reduction in depreciation, amortization and finance expenses, partially offset by increased general and administration costs and a $0.2 million one-time impairment charge.

Revenue

	Fourth Quarter		
($000s)	2012	2011	% change
Underground Fluid Containment:			
Petroleum Products	**25,543**	25,020	2%
Water Products	**3,687**	4,650	(21%)
	29,231	29,670	(2%)
Aboveground Fluid Containment:			
Corrosion Products	**15,635**	8,046	94%
	44,866	37,716	19%

Revenue of $44.9 million was up $7.2 million or 19% for the fourth quarter of 2012, as compared to the fourth quarter of 2011. The increase in revenue was a result of the Aboveground segment and reflect the factors noted below:

Underground Fluid Containment

Within the Underground segment, an increase of $0.5 million for Petroleum Products revenue was more than offset by a decline in of $1.0 million for Water Products.

Petroleum Products revenue of $25.5 million was up slightly from the same quarter of 2011. The increase in revenue was attributable to the US operations with an increase of $3.0 million or 20%, prior to a negative foreign exchange conversion impact for reporting purposes. In the US, sales to independent service station customers were up 18% and sales to US distributors were up 16% over the same quarter in 2011, reflecting broad-based geographic demand that benefited all of our US Underground plants.

Canadian Petroleum Products revenue, down $2.4 million or 29%, offset most of the increase in US Petroleum sales. Specifically, lower sales to independent oil customers and contractors and lower pre-orders in the fourth quarter of 2012, as compared to 2011, contributed to the decrease.

Petroleum Products revenue from international operations rose by $0.5 million over the fourth quarter of 2011.

The $1.0 million decrease in Water Products revenue was mainly attributable to the US Water Products market. Canadian Water Products sales were down slightly in the fourth quarter of 2012 as compared to a year earlier. When compared to the fourth quarter of 2011, US Water Products sales were down $0.8 million or 24% including a negative foreign exchange conversion impact for reporting purposes. We attribute the weakness in the US Water Products mainly to timing of orders and lower US government spending on construction projects.

Aboveground Fluid Containment

Aboveground revenue of $15.6 million was $7.6 million or 94% higher than the fourth quarter of 2011, with the increase coming from both Canadian and US operations.

The Aboveground Corrosion Products are more dependent on larger orders that are longer term in nature than the Underground operating segment. Revenue in the Corrosion Products operations benefited from the completion of several larger orders begun in prior quarters and started in the fourth quarter, which were completed in the current quarter when compared to the prior year.

Gross Profit

	Fourth Quarter			
($000s)	2012	2011	% change	% of rev 2012
Underground Fluid Containment	**5,167**	5,399	(4%)	18%
Aboveground Fluid Containment	**2,495**	789	216%	16%
	7,662	6,188	24%	17%

For the three months ended December 31, 2012, gross profit of $7.7 million increased by $1.5 million or 24% compared to the three months ended December 31, 2011. Gross margin increased to 17% from 16% in the fourth quarter of 2011. The change reflected the factors discussed below:

Underground Fluid Containment

Underground gross profit of $5.2 million decreased $0.2 million or 2% in the fourth quarter of 2012 over the fourth quarter of 2011. Gross profit as a percentage of sales held steady at 18% compared to the same period a year earlier.

Aboveground Fluid Containment

The Aboveground gross profit of $2.5 million was an increase of $1.7 million or 216% compared with the fourth quarter of 2011. Gross margin of 16% was up significantly from 10% in the fourth quarter of 2011 due to a strong revenue quarter and production efficiencies realized through spreading the fixed costs base over increased production.

General and Administration

($000s)	Fourth Quarter
2012	2,406
2011	2,120
% change	13%

General and administration ("G&A") expense for the three months ended December 31, 2012, increased $0.3 million or 13% over the same period in 2011. The quarter over quarter increase in G&A reflected restructuring charges of $0.4 million incurred in the fourth quarter of 2012. Excluding these restructuring charges, G&A would have decreased 6% from the fourth quarter of 2011 and would have been 4% of revenue compared to 6% of revenue in 2011.

Foreign Exchange Loss

($000s)	Fourth Quarter
2012	15
2011	16

The foreign exchange loss for each period primarily related 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 table details the US dollar and euro conversion rates.

US Dollar and Euro Conversion Rates

Fourth Quarter	2012		2011			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
USD	0.99	1.00	1.02	1.02	(3%)	(2%)
Euro	1.29	1.32	1.38	1.32	(7%)	-

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 and Amortization

($000s)	Fourth Quarter
2012	931
2011	1,212
% change	(23%)

The reduction in depreciation and amortization expense primarily resulted from a lower cost base in intangible assets as compared to the same quarter of 2011. The Xerxes acquisition occurred more than five years ago, and certain of the intangible assets purchased are now fully amortized.

Finance Expense

($000s)	Fourth Quarter
2012	153
2011	256
% change	(40%)

The lower finance expense primarily resulted from the early repayment of the BDC loan that occurred during the first quarter of 2012 and the redemption of the preferred shares that occurred in June of 2012.

Impairment of assets

During the three months ended December 31, 2012, the carrying value of an internally developed mold for the Underground operating segment was recorded as an impairment loss of $0.2 million. The mold was unable to produce a tank that met ZCL's stringent internal product quality standards required for underground petroleum storage.

Income Taxes

Income tax expense for the three months ended December 31, 2012, represented 28% of pre-tax income, equivalent to 28% of pre-tax income in 2011.

Other Comprehensive Income (Loss)

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

($000s)	Fourth Quarter
2012	793
2011	(789)

The other comprehensive income in the fourth quarter of 2012 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the quarter from 0.98 to 1.00. In the fourth quarter of 2011, the US dollar conversion rate decreased from 1.03 to 1.02 generating other comprehensive loss.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of $31.7 million as at December 31, 2012 was an improvement over the $28.7 million at September 30, 2012. Positive cash flows from operations, as well as decreases in accounts receivable and inventory, 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. 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, 2012.

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 as at December 31, 2012, was prime plus 100 basis points, 4.00% (December 31, 2011 - prime plus 100 basis points, 4.00%) adjusted quarterly based on certain financial indicators of the Company. The effective interest rate on the term loan balance as at December 31, 2012, was US LIBOR rate plus 250 basis points, 2.71% (December 31, 2011 – US LIBOR rate plus 250 basis points, 2.75%), adjusted quarterly based on certain financial indicators of the Company. 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, 2012 would have impacted net income for the period ended December 31, 2012, by $0.1 million.

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 and considers long term forecasts to assess the potential cash flow impact to the Company.

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, 2012. 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 related to financial assets, net of financial liabilities, at December 31, 2012, was as follows:

(in thousands of US dollars)	$
Foreign operations	7,949
Domestic operations	(1,950)
Net balance sheet exposure	5,999

Operating exposure for the twelve months ended December 31, 2012, was as follows:

(in thousands of US dollars)	$
Sales	115,027
Operating expenses	92,994
Net operating exposure	22,033

The weighted average US to Canadian dollar translation rate was 1.00 for the year ended December 31, 2012. The translation rate as at December 31, 2012, was 1.00.

Based on the foreign currency exposures noted above, with other variables unchanged, a 20% change in the Canadian dollar would have impacted net income for the year ended December 31, 2012, as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	(250)
Net operating exposure of foreign operations	2,820
Change in net income	2,570

Other comprehensive (loss) income would have changed $1.0 million 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 of the analysis.

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 industrial 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, 2012, 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 $27.3 million as at December 31, 2012 (December 31, 2011 - $19.5 million). Included in accounts receivable are balances not considered trade receivables of $1.1 million (December 31, 2011 - $0.4 million) which include various sales tax refunds, insurance refunds and rebates. On a geographic basis as at December 31, 2012, approximately 48% (December 31, 2011 – 47%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 52% (December 31, 2011 – 53%) was due from US customers.

Payment terms are generally net 30 days. As at December 31, 2012, the percentages of trade accounts receivable were as follows:

	December 31, 2012	December 31, 2011
Current	60%	51%
Past due 1 to 30 days	27%	27%
Past due 31 to 60 days	6%	12%
Past due 61 to 90 days	2%	8%
Past due greater than 90 days	5%	2%
Total	100%	100%

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.

For information on contractual maturities on long term obligations, please refer to the Liquidity and Capital Resources section of this MD&A.

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 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 acquisition as the purchase agreements hold the vendor responsible for any environmental issues prior to ZCL ownership. With the ZCL Dualam acquisition, phase two assessments were undertaken and, as a result, the Company was aware of environmental issues on two of the properties. During the twelve months ended December 31, 2012, the Company sold one of the ZCL Dualam properties subject to remediation, back to the vendor. The other ZCL Dualam property has been fully remediated and 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 and responsible manner, and in accordance with applicable regulatory requirements. In addition, the Company has a Health, Safety and Environment Committee that meets regularly to review and monitor environmental issues, compliance, risks and mitigation strategies. However, it is unknown whether specific environmental conditions and incidents will 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 and the 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 December 31, 2012 annual 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 depreciation and 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.

Depreciation and 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 depreciation and 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 depreciation and 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 depreciation and 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 US workers compensation 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, 2012, the Company has set aside restricted cash of $0.3 million US for such claims.

Warranties

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 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 10 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 substantiated 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 10 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. Excluding enhanced Prezerver warranty, the maximum exposure to the Company for warranty claims is, at the Company's sole discretion, to repair or replace the product giving rise to the claim. The actual costs of warranties may vary from those estimated, and the difference may be material.

UPCOMING CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 7 and IAS 32 - Offsetting Financial Assets and Financial Liabilities

Amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32: "Financial Instruments: Presentation". The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will become effective for annual periods beginning on or after January 1, 2013 and the Company has determined that the adoption of this amendment will not have an impact on the consolidated financial statements.

Amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". These amendments become effective for annual periods beginning on or after January 1, 2014 and the Company has determined that the adoption of this amendment will not have an impact on the consolidated financial statements.

IFRS 12: "Disclosure of Interests with Other Entities"

The standard becomes effective for annual periods beginning on or after January 1, 2013. It includes all of the disclosures that were previously included in IAS 27: "Consolidated and Separate Financial Statements", IAS 31: "Interests in Joint Ventures" and IAS 28: "Investment in Associates". These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Company has determined that the adoption of this standard will not have an impact on the consolidated financial statements.

IFRS 13: "Fair Value Measurement"

In May 2011, the International Accounting Standards Board ("IASB") published IFRS 13: "Fair Value Measurement", which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 does not change the requirements of using fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.

IAS 34: "Interim Financial Reporting"

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after January 1, 2013.

IFRS 10: "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10: "Consolidated Financial Statements," which replaces Standing Interpretations Committee 12: "Consolidation-Special Purpose Entities", and parts of IAS 27: "Consolidated and Separate Financial Statements". The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included the Company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. Based on a preliminary analysis, this new standard is not expected to change the consolidation conclusion for the Company's current subsidiaries. This standard becomes effective for annual periods beginning on or after January 1, 2013.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management has evaluated whether there were changes in the Company's disclosure controls and procedures during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Controls over Financial Reporting ("ICFR"). No material changes were identified. As at December 31, 2012, there were no material weaknesses relating to the design of ICFR.

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, 2012.

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")

The CEO and CFO have designed or managed the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2012, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2012, internal control over financial reporting was effective based on the criteria established in Internal Control – Integrated Framework.

Management has evaluated whether there were changes in the Company's ICFR during the year ended December 31, 2012 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, 2012, and no limitations on the scope of design of ICFRs.

While management of the Company has evaluated the effectiveness of disclosure controls and procedures and ICFR as of December 31, 2012, 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 $31,000 (2011 - $30,000) for the year ended December 31, 2012, 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, 2012, included $3,000 (December 31, 2011 - $nil) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

OUTSTANDING SHARE DATA

As at March 7, 2013, there were 29,121,209 common shares and 2,326,476 share options outstanding. Of the options outstanding, 912,482 are currently exercisable into common shares.

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. Gross profit, gross margin, EBITDA, funds from continuing operations, working capital, net debt, net cash and cash equivalents 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 and amortization, general and administration and financing expenses.

Gross margin is defined as gross profit divided by revenue.

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

Funds from continuing operations are 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.

Net cash and cash equivalents are defined as cash and cash equivalents less long term debt, current portion of long term debt and bank indebtedness.

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 margin.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2012	2011	2012	2011	2010
(in thousands of dollars)	$	$	$	$	$
Revenue	**44,866**	37,716	**170,359**	127,046	121,574
Manufacturing and selling costs	**37,204**	31,528	**140,440**	107,592	109,916
Gross profit	**7,662**	6,188	**29,919**	19,454	11,658
Gross profit as a % of revenue	**17%**	16%	**18%**	15%	10%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2012	2011	2012	2011	2010[1]
(in thousands of dollars)	$	$	$	$	$
Net income (loss) from continuing operations	**2,876**	1,840	**13,490**	**3,454**	(16,700)
Adjustments:					
Depreciation and amortization	**931**	1,212	**3,673**	**4,317**	4,792
Finance expense	**153**	256	**770**	**1,272**	1,363
Income tax expense (recovery)	**1,089**	728	**4,744**	**1,154**	(3,990)
Share-based compensation	**145**	120	**575**	**508**	791
Loss (gain) on disposal of assets	**10**	16	**(246)**	**(356)**	10
Gain on redemption of preferred shares	**-**	-	**(670)**	**-**	-
Impairment of assets	**182**	-	**182**	**-**	14,293
EBITDA	**5,386**	4,172	**22,518**	**10,349**	559
EBITDA as a percentage of revenue	**12%**	11%	**13%**	**8%**	0.5%

Note 1: The 2010 comparative calculation has been restated to remove costs associated with restructuring, integration and ERP costs.

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2012	2011	2012	2011	2010
(in thousands of dollars)	$	$	$	$	$
Net income (loss) from continuing operations	**2,876**	1,840	**13,490**	**3,454**	(16,700)
Add (deduct) items not affecting cash:					
Depreciation and amortization	**931**	1,212	**3,673**	**4,317**	4,792
Deferred income tax expense (recovery)	**120**	748	**(412)**	**185**	(1,400)
Loss (gain) on disposal of assets	**10**	16	**(246)**	**(356)**	10
Gain on redemption of preferred shares	**-**	-	**(670)**	**-**	-
Share-based compensation expense	**145**	120	**575**	**508**	791
Impairment of assets	**182**	-	**182**	**-**	13,363
Non-cash proceeds on settlement of claims	**-**	-	**(1,348)**	**-**	-
Other	**(97)**	75	**(92)**	**309**	35
Funds from continuing operations	**4,167**	4,011	**15,152**	**8,417**	891

The following table presents the calculation of working capital.

	As at		
(in thousands of dollars)	December 31, 2012 $	December 31, 2011 $	December 31, 2010 $
Current assets	**57,728**	47,873	47,821
Current liabilities	**26,073**	24,486	30,005
Working capital	**31,655**	23,387	17,816

The following table presents the calculation of net debt.

	As at		
(in thousands of dollars)	December 31, 2012 $	December 31, 2011 $	December 31, 2010 $
Long term debt (including current portion, excluding preferred shares where applicable)	**4,762**	6,274	11,131
Bank indebtedness	**-**	-	8,565
Less: cash and cash equivalents	**(4,846)**	(1,707)	(2,105)
Net debt	**(84)**[1]	4,567	17,591

Note 1: When cash and cash equivalents exceed debt balances, the amount is considered net cash and cash equivalents.

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, 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 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, euro 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 global economic uncertainty, 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 conversion rates of the US to Canadian dollar and euro to Canadian dollar 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, 2012 and 2011

MANAGEMENT'S REPORT

March 7, 2013

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 3 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.

"Ron Bachmeier"
Ronald M. Bachmeier
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, 2012, and 2011, and the consolidated statements of income, comprehensive income, and shareholders' equity and cash flows for the years ended December 31, 2012 and 2011, 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, 2012, and 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Edmonton, Canada
March 7, 2013

Chartered Accountants

Consolidated Balance Sheets

As at

(in thousands of dollars)	December 31, 2012 $	December 31, 2011 $
ASSETS		
Current		
Cash and cash equivalents	**4,846**	1,707
Accounts receivable *[note 22]*	**28,469**	19,908
Inventories *[notes 5]*	**22,657**	24,271
Income taxes recoverable	**841**	1,082
Prepaid expenses	**915**	905
	57,728	47,873
Property, plant and equipment *[note 7]*	**26,093**	26,083
Assets held for sale *[note 7]*	**—**	952
Intangible assets *[note 8]*	**6,361**	8,029
Goodwill *[note 26]*	**29,671**	30,263
Restricted cash	**249**	255
Other assets	**424**	444
TOTAL ASSETS	**120,526**	113,899
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**17,274**	15,435
Dividends payable *[note 14]*	**580**	—
Income taxes payable	**1,467**	797
Deferred revenue	**3,409**	5,325
Current portion of provisions *[note 10]*	**1,993**	1,185
Current portion of long term debt *[note 11]*	**1,350**	1,687
Current portion of preferred shares	**—**	57
	26,073	24,486
Deferred income tax liabilities *[note 17]*	**4,597**	5,068
Long term portion of provisions *[note 10]*	**609**	449
Long term debt *[note 11]*	**3,412**	4,587
Preferred shares *[note 12]*	**—**	5,125
TOTAL LIABILITIES	**34,691**	39,715
Shareholders' equity		
Share capital *[note 15]*	**70,980**	69,862
Contributed surplus *[note 16]*	**2,609**	2,177
Equity component of preferred shares *[note 12]*	**—**	845
Accumulated other comprehensive loss	**(8,027)**	(7,073)
Retained earnings	**20,273**	8,373
TOTAL SHAREHOLDERS' EQUITY	**85,835**	74,184
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**120,526**	113,899

See accompanying notes

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

Consolidated Statements of Income

For the years ended December 31,

(in thousands of dollars, except per share amounts)	2012 $	2011 $
Revenue	**170,359**	127,046
Manufacturing and selling costs *[note 6]*	**140,440**	107,592
Gross profit	**29,919**	19,454
General and administration	**8,571**	9,986
Foreign exchange loss (gain)	**43**	(373)
Depreciation and amortization *[notes 7 and 8]*	**3,673**	4,317
Finance expense *[note 21]*	**770**	1,272
Gain on disposal of property, plant and equipment	**(246)**	(356)
Impairment of property, plant and equipment *[note 7]*	**182**	—
Gain on redemption of preferred shares *[note 12]*	**(670)**	—
Other items *[note 12]*	**(638)**	—
	11,685	14,846
Income before income taxes	**18,234**	4,608
Income tax expense (recovery) *[note 17]*		
Current	**5,156**	969
Deferred	**(412)**	185
	4,744	1,154
Net income from continuing operations	**13,490**	3,454
Net loss from discontinued operations *[note 18]*	**—**	(164)
Net income	**13,490**	3,290
Earnings per share from continuing operations *[note 19]*		
Basic	**$0.47**	$0.12
Diluted	**$0.46**	$0.12
Loss per share from discontinued operations *[note 19]*		
Basic	**—**	($0.01)
Diluted	**—**	($0.01)
Earnings per share *[note 19]*		
Basic	**$0.47**	$0.11
Diluted	**$0.46**	$0.11

See accompanying notes

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of dollars)	2012 $	2011 $
Net income	**13,490**	3,290
Translation of foreign operations	**(954)**	787
Comprehensive income	**12,536**	4,077

Consolidated Statements of Shareholders' Equity

For the years ended December 31,

(in thousands)	Common Shares \#	Share Capital $	Contributed Surplus $	Equity Component of Pref. Shares $	Accumulated Other Comprehensive Loss $	Retained Earnings $	Total $
Balance, December 31, 2011	**28,802**	**69,862**	**2,177**	**845**	**(7,073)**	**8,373**	**74,184**
Share-based payments *[note 16]*	**—**	**—**	**575**	**—**	**—**	**—**	**575**
Shares issued on exercise of options *[note 15]*	**233**	**847**	**—**	**—**	**—**	**—**	**847**
Reclassification of fair value of stock options previously expensed *[note 16]*	**—**	**271**	**(271)**	**—**	**—**	**—**	**—**
Redemption of preferred shares *[note 12]*	**—**	**—**	**128**	**(845)**	**—**	**—**	**(717)**
Translation of foreign operations	**—**	**—**	**—**	**—**	**(954)**	**—**	**(954)**
Dividends declared *[note 14]*	**—**	**—**	**—**	**—**	**—**	**(1,590)**	**(1,590)**
Net income	**—**	**—**	**—**	**—**	**—**	**13,490**	**13,490**
Balance, December 31, 2012	**29,035**	**70,980**	**2,609**	**—**	**(8,027)**	**20,273**	**85,835**
Balance, December 31, 2010	28,802	69,862	1,669	845	(7,860)	5,083	69,599
Share-based payments *[note 16]*	—	—	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

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of dollars)	2012 $	2011 $
CASH FLOWS FROM CONTINUING OPERATIONS		
Net income from continuing operations	**13,490**	3,454
Add (deduct) items not affecting cash:		
Depreciation and amortization *[notes 7 and 8]*	**3,673**	4,317
Deferred tax (recovery) expense	**(412)**	185
Share-based compensation expense *[note 16]*	**575**	508
Gain on disposal of property, plant and equipment	**(246)**	(356)
Impairment of property, plant and equipment *[note 7]*	**182**	—
Gain on redemption of preferred shares *[note 12]*	**(670)**	—
Non-cash proceeds on settlement of claims *[note 12]*	**(1,348)**	—
Other	**(92)**	309
Funds from continuing operations	**15,152**	8,417
Changes in non-cash working capital:		
(Increase) decrease in accounts receivable	**(8,802)**	2,825
Decrease (increase) in inventories	**1,319**	(5,345)
(Increase) decrease in prepaid expenses	**(21)**	31
Increase in accounts payable, accrued liabilities and provisions	**3,064**	1,025
(Decrease) increase in deferred revenue	**(1,857)**	3,403
Increase in income taxes payable	**942**	2,843
	(5,355)	4,782
Cash flows from continuing operations	**9,797**	13,199
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares on the exercise of stock options, net of issuance costs *[note 15]*	**847**	—
Net repayment of bank indebtedness	**—**	(8,565)
Dividends paid *[note 14]*	**(1,010)**	—
Advance on long term debt, net of financing charges	**2,000**	—
Repayment of long term debt	**(3,376)**	(4,824)
Redemption of preferred shares *[note 12]*	**(2,075)**	—
Cash flows used in financing activities	**(3,614)**	(13,389)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 7]*	**(2,982)**	(1,753)
Disposal of property, plant and equipment	**247**	633
Purchase of intangible assets *[note 8]*	**(75)**	(25)
Disposal of other assets *[note 18]*	**—**	1,336
Cash flows (used in) from investing activities	**(2,810)**	191
Foreign exchange loss on cash held in foreign currency	**(234)**	(223)
Cash used in discontinued operations *[note 18]*	**—**	(176)
Increase (decrease) in cash and cash equivalents	**3,139**	(398)
Cash and cash equivalents, beginning of the year	**1,707**	2,105
Cash and cash equivalents, end of the year	**4,846**	1,707

See accompanying notes

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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 is 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 in-situ fibreglass tank and tank 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 cash and cash equivalents which are recorded at fair value through profit and loss.

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were authorized for issue by the Board of Directors on March 7, 2013.

Basis of Consolidation

The consolidated financial statements of the Company include the accounts of ZCL Composites Inc. and its wholly-owned subsidiaries including Parabeam Industries BV, Radigan Insurance Inc., ZCL International SRL (formerly VRB & Associates SRL), ZCL-Dualam 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 capitalized interest costs on qualifying assets. 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 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, are not subject to amortization 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. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 26.

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 they are 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 they are 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 amortized 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 are their fair values at the dates of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The estimated useful lives 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, 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 when the asset is derecognized.

Business combinations and goodwill

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”. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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.

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 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 and US workers' compensation 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. Provisions for warranty costs are charged to the consolidated statements of income and revisions to the estimated provision are charged to the consolidated statements of income 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 entity's 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 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. 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. 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 contract. 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 and receivables, available for sale financial assets or as derivatives designated as hedging instruments in effective hedge arrangements as appropriate. The classification of a financial asset is determined at the time of initial recognition of the asset. All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit and loss.

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, 2012 and 2011, the Company did not have any held to maturity investments on the consolidated balance sheet.

Available for sale financial instruments:
As at December 31, 2012 and 2011, the Company did not have any available for sale financial instruments on the consolidated balance sheet.

Derivatives designated as hedging instruments:
As at December 31, 2012 and 2011, the Company did not have any derivatives designated as hedging 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 in effective hedge arrangements. 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 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, long term debt 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.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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. Management has determined that the Black-Scholes option pricing model is the most appropriate option pricing model to use given the nature of the Company's stock options. 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 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 in that period.

Cash-settled transactions:
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 re-measured 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 income 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.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to income tax expense already recorded.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

As a lessor
Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Gains on sale and lease back transaction, where fair value of lease is below sale value, is recognized in the income statement when they are incurred.

4. UPCOMING CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 7 and IAS 32: Offsetting Financial Assets and Financial Liabilities

Amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32: "Financial Instruments: Presentation". The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will become effective for annual periods beginning on or after January 1, 2013 and the Company has determined that the adoption of this amendment will not have an impact on the consolidated financial statements.

Amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". These amendments become effective for annual periods beginning on or after January 1, 2014 and the Company has determined that the adoption of this amendment will not have an impact on the consolidated financial statements.

IFRS 12: "Disclosure of Interests with Other Entities"

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously included in IAS 27 "Consolidated and Separate Financial Statements", IAS 31: "Interests in Joint Ventures" and IAS 28: "Investment in Associates". These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Company has determined that the adoption of this standard will not have an impact on the consolidated financial statements.

IFRS 13: "Fair Value Measurement"

In May 2011, the International Accounting Standards Board ("IASB") published *IFRS* 13: "Fair Value Measurement", which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 does not change the requirements of using fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.

IAS 34: "Interim Financial Reporting"

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after January 1, 2013.

IFRS 10: "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10: "Consolidated Financial Statements," which replaces Standing Interpretations Committee 12: "Consolidation-Special Purpose Entities", and parts of IAS 27: "Consolidated and Separate Financial Statements". The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included the Company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. Based on a preliminary analysis, this new standard is not expected to change the consolidation conclusion for the Company's current subsidiaries. This standard becomes effective for annual periods beginning on or after January 1, 2013.

5. INVENTORIES

As at (in thousands of dollars)	**December 31, 2012** **$**	**December 31, 2011** **$**
Raw materials	**9,068**	8,846
Work in progress	**4,048**	5,950
Finished goods	**9,541**	9,475
	22,657	24,271

During the year ended December 31, 2012 there was a write-down of $170,000 (December 31, 2011 - $175,000) of inventory to its net realizable value.

6. MANUFACTURING AND SELLING COSTS

For the years ended December 31, (in thousands of dollars)	**2012** **$**	**2011** **$**
Raw materials and consumables used	**58,150**	45,345
Labour costs	**31,152**	24,357
Other costs	**49,302**	43,858
Net change in inventories of finished goods and work in progress	**1,836**	(5,968)
	140,440	107,592

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land $	Buildings $	Leaseholds $	Manufacturing Equip. $	Office Equip. $	Auto Equip. $	Total $
Cost							
As at December 31, 2010	6,311	7,673	2,942	20,851	3,402	417	41,596
Additions	—	278	310	950	200	15	1,753
Disposals	—	—	(61)	(1,740)	(67)	(30)	(1,898)
Foreign exchange	2	101	35	87	11	6	242
As at December 31, 2011	6,313	8,052	3,226	20,148	3,546	408	41,693
Additions	—	88	517	2,100	119	158	2,982
Disposals	(91)	(1,434)	—	(375)	(167)	(198)	(2,265)
Impairment	—	—	—	(182)	—	—	(182)
Reclassification of assets from held for sale	255	691	—	—	—	—	946
Foreign exchange	(2)	(39)	(41)	(128)	(14)	(9)	(233)
As at December 31, 2012	**6,475**	**7,358**	**3,702**	**21,563**	**3,484**	**359**	**42,941**
Accumulated Depreciation							
As at December 31, 2010	—	1,590	992	9,753	2,299	91	14,725
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	2,599	158	15,610
Depreciation	—	227	316	1,111	297	82	2,033
Disposals	—	(202)	—	(375)	(153)	(163)	(893)
Reclassification of assets from held for sale	—	178	—	—	—	—	178
Foreign exchange	—	(7)	(16)	(40)	(10)	(7)	(80)
As at December 31, 2012	**—**	**2,023**	**1,746**	**10,276**	**2,733**	**70**	**16,848**
Carrying Amount							
As at December 31, 2011	6,313	6,225	1,780	10,568	947	250	26,083
As at December 31, 2012	**6,475**	**5,335**	**1,956**	**11,287**	**751**	**289**	**26,093**

Capital work in progress of $321,000 (December 31, 2011 - $524,000) is included above and not subject to depreciation. Included in this figure is $300,000 for manufacturing equipment and $21,000 in buildings (improvements).

During the year ended December 31, 2012, land and buildings with a net book value of $768,000 were reclassified back to property, plant and equipment as the assets, previously classified as held for sale, were not sold within a year. The Company did sell land and a building during the year ended December 31, 2012 that was previously classified as held for sale with a net book value of $179,000.

The $182,000 impairment loss recognized during the year ended December 31, 2012 relates to an internally developed mold for the Underground operating segment. This mold was initially designed to be lighter and more mobile than the existing molds used by the Company, however the mold was not able to produce a tank that met ZCL's stringent quality standards. Management of the Company determined that this asset would not be usable, nor is it sellable to a third party, therefore the entire carrying value of $182,000 was recorded as an impairment loss.

8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships $	Brands $	Internally Developed ERP Software $	Deferred Development Costs $	Product Certifications $	Other $	Total $
Cost							
As at December 31, 2010	6,432	3,535	3,244	1,194	70	3,375	17,850
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	—	3,419	18,032
Additions	—	—	—	—	—	75	75
Disposals	—	—	—	—	—	—	—
Foreign exchange	(136)	(67)	(38)	—	—	(22)	(263)
As at December 31, 2012	**6,413**	**3,526**	**3,239**	**1,194**	**—**	**3,472**	**17,844**
Accumulated Depreciation							
As at December 31, 2010	3,920	1,315	240	1,024	—	1,185	7,684
Amortization	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	—	1,569	10,003
Amortization	635	390	301	—	—	314	1,640
Foreign exchange	(104)	(33)	(8)	—	—	(15)	(160)
As at December 31, 2012	**5,443**	**2,114**	**864**	**1,194**	**—**	**1,868**	**11,483**
Carrying Amount							
As at December 31, 2011	1,637	1,836	2,706	—	—	1,850	8,029
As at December 31, 2012	**970**	**1,412**	**2,375**	**—**	—	**1,604**	**6,361**

Other intangible assets include licenses, patents, air permits, non-patented technology and costs related to an RTP-1 certification.

9. BANK INDEBTEDNESS – OPERATING CREDIT FACILITY

The Company's operating credit facility was not in use at December 31, 2012 and December 31, 2011. Bank indebtedness consists of amounts drawn under available credit facilities and cheques issued in excess of related cash and cash equivalent balances; the Company has a maximum of $20 million of available credit under this operating credit facility. The operating credit facility is repayable on demand and expires on May 31, 2014 however it 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, 2012, 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 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
Amounts used against the provision	(522)	(30)	(146)	(698)
Additional provision	904	200	593	1,697
Foreign exchange	(9)	(11)	(11)	(31)
As at December 31, 2012	**916**	**609**	**1,077**	**2,602**

Of the $2,602,000 (2011 - $1,634,000) in provisions described above, the Company expects $1,993,000 (2011- $1,185,000) to settle within 12 months of the balance sheet date, the remaining $609,000 (2011 - $449,000) of provisions are classified as long term liabilities on the balance sheet.

The Company self-insures certain risks related to product liability, general liability coverage and US workers' compensation exposures through Radigan Insurance Inc., its captive insurance company. Management has accrued provisions related to its self-insured liabilities based on reports from a certified reserve analyst as well as previous experience in dealing with similar provisions. Although actual settlement amounts may differ from the provisions included in the Company's consolidated balance sheet, management does not expect these amounts to materially exceed the provisions accrued for self-insured liabilities.

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 and the Company's previous experience with similar claims management records provisions, if any, in the period in which uncertainty regarding such matters is resolved and the amount of the loss can be reasonably estimated.

Due to the uncertainties in the nature of the Company's legal claims, such as the range of possible outcomes and the progress of the litigation, the provisions accrued involve estimates and the ultimate cost to resolve these claims may exceed or be less than those recorded in the consolidated financial statements. Management believes that the ultimate cost to resolve these claims will not materially exceed the insurance coverage or provisions accrued and, therefore, would not have a material adverse effect on the Company's consolidated statements. Management reviews the timing of the outflows of these provisions on a regular basis. Cash outflows for existing provisions are expected to occur within the next one to five years, although this is uncertain and depends on the development of the specific circumstances. These outflows are not expected to have a material impact on the Company's cash flows.

11. LONG TERM DEBT

As at (in thousands of dollars)	December 31, 2012 $	December 31, 2011 $
Term loan	**4,762**	4,168
Other long term debt	**—**	2,106
Total long term debt	**4,762**	6,274
Less current portion	**1,350**	1,687
	3,412	4,587

Excluding financing costs, the principal balance of the term loan as at December 31, 2012 is $4,818,000 USD (December 31, 2011 – $4,144,000 USD) which is a reasonable estimate of its fair value.

During the year ended December 31, 2012, the Company increased its term loan by $2,009,000 USD as a result of paying out an existing loan with the Business Development Bank of Canada. With the increase in principal on the term loan, the terms and conditions on the term loan remained unchanged. 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, 2014. The interest charged on the loan is the US dollar based 30 day 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. The Company's bank has waived the repayment requirement on the disposal of the land and buildings discussed in note 12.

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, 2012 is $6,746,000. 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, 2012.

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. For additional information regarding the Company's exposure to market fluctuations in interest rates, refer to note 22.

12. PREFERRED SHARES

On June 15, 2012, the Company redeemed all outstanding convertible preferred shares that were issued by a subsidiary of the Company to the vendor on the acquisition of ZCL Dualam on January 4, 2010. A total of 1,078,947 convertible preferred shares, which had a repayment term of five years and a cumulative preferred dividend of 4.4%, were redeemed. When issued, the Company recognized a liability of $5,125,000, its fair value, on the balance sheet as well as an $845,000 addition to shareholders' equity, which represented the fair value of the conversion options at the time the convertible preferred shares were issued.

The preferred shares were redeemed for consideration of $5,173,000. The consideration was issued through cash disbursement and by applying proceeds on the sale of properties and settlement of outstanding claims against the vendor.

The break-down of the consideration is as follows:

Cash payment to the vendor	$2,075,000
Fair value of land and buildings transferred	1,750,000
Applied proceeds on the settlement of outstanding claims with the vendor	1,348,000
Total consideration issued	$5,173,000

At the time of the settlement, the estimated fair value of the convertible preferred shares was $6,362,000; $5,354,000 related to the fair value of the liability portion and $1,008,000 related to the fair value of the conversion option on the convertible preferred shares. The Company allocated the consideration against both the liability and equity components of the convertible preferred shares using the same methodology as was used when initially establishing the accounting for the liability and equity components. This resulted in a gain of $670,000 in the consolidated statement of income for the year ended December 31, 2012 and an increase to contributed surplus of $128,000.

The land and buildings had a carrying value of $1,502,000 and the disposal resulted in a gain of $248,000 in the consolidated statement of income for the year ended December 31, 2012. One of the properties disposed of as part of this transaction was previously recorded as an asset held for sale on the Company's consolidated balance sheet.

The applied proceeds on the settlement of outstanding claims represented amounts that the Company had claimed in relation to past or future anticipated cash disbursements that were incurred, or may be incurred by the Company on issues relating to periods prior to the acquisition of ZCL Dualam. The amounts that were previously paid in prior periods, that have now been recovered, have been recorded as a recovery of expenses in the other items line in the consolidated statement of income for the year ended December 31, 2012. The remainder is included in provisions as at December 31, 2012.

13. COMMITMENTS

Lease Commitment

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

(in thousands of dollars)	$
2013	2,558
2014	2,156
2015	1,314
2016	997
2017	514
Thereafter	292
	7,831

Other Contractual Obligations

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 two letters of credit for a total 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, 2012 the issued performance letters of credit totalled $1.5 million.

14. DIVIDENDS

Dividends declared for year ended December 31,

2012				2011			
Declared	Per share	Paid to shareholders	Total	Declared	Per share	Paid to shareholders	Total
March 7, 2012	**$0.010**	April 2, 2012	**$288,000**	—	—	—	—
May 8, 2012	**$0.010**	July 16, 2012	**$288,000**	—	—	—	—
August 3, 2012	**$0.015**	Oct 15, 2012	**$434,000**	—	—	—	—
November 8, 2012	**$0.020**	Jan 15, 2013	**$580,000**	—	—	—	—
	$0.055		**$1,590,000**	—	—	—	—

For the year ended December 31, 2012,

	2012 $	2011 $
Payable, beginning of period	**—**	—
Declared	**1,590,000**	—
Paid in cash	**(1,010,000)**	—
Payable, end of period	**580,000**	—

On March 7, 2013, the Company's Board of Directors declared a dividend of $0.025 per common share to be paid on April 15, 2013 to the shareholders of record as of March 28, 2013.

15. SHARE CAPITAL

Authorized

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

Issued and outstanding

During the year ended December 31, 2012, the Company issued 233,000 (2011 - nil) common shares at an average rate of $3.63 per share for options exercised resulting in cash proceeds to the Company of $847,000 (2011 - $nil). As at December 31, 2012, the Company had 29,035,003 common shares outstanding (December 31, 2011 – 28,802,020).

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-tradeable, 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.

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 not exceed 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, 2012, the Company has 2,424,349 (2011 – 2,207,498) options outstanding, which expire on dates between December 2013 and December 2017. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2012, 959,269 (2011 – 747,769) 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 years:

For the years ended December 31,

	2012		2011	
	Stock options	**Weighted average exercise price**	Stock options	Weighted average exercise price
Balance, as at January 1	**2,207,498**	**3.44**	1,414,000	4.01
Granted	**597,000**	**4.72**	1,195,000	3.10
Exercised	**(232,983)**	**3.63**	—	—
Forfeited	**(147,166)**	**3.54**	(351,502)	4.39
Expired	**—**	**—**	(50,000)	4.55
Balance, as at December 31	**2,424,349**	**3.74**	2,207,498	3.44

	2012				
	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	**395,300**	**3.75**	**0.94**	**395,300**	**3.75**
3.87	**378,672**	**3.87**	**2.02**	**238,645**	**3.87**
4.09	**20,000**	**4.09**	**2.19**	**13,330**	**4.09**
3.05	**453,372**	**3.05**	**3.19**	**133,347**	**3.05**
3.23	**7,500**	**3.23**	**3.40**	**2,499**	**3.23**
3.15	**572,505**	**3.15**	**3.93**	**176,148**	**3.15**
4.72	**597,000**	**4.72**	**4.95**	**—**	**—**
3.05 – 4.72	**2,424,349**	**3.74**	**3.24**	**959,269**	**3.58**

	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

During the year ended December 31, 2012, 597,000 options were granted at an exercise price of $4.72. During the year ended December 31, 2011, 1,195,000 options were granted. 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, 2012, $232,983 stock options (2011 – nil) were exercised with a weighted average exercise price of $3.63 resulting in cash proceeds to the Company of $847,000. Compensation expense previously included in contributed surplus of $271,000 was credited to share capital on the exercise of stock options.

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, 2012, share-based compensation expense of $575,000 (2011 - $508,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income.

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 $1.37 ($0.90, $1.21 and $0.97 during the year ended December, 2011 respectively).

	2012	**2011**
Risk-free interest rate (%)	1.2	1.7
Expected hold period to exercise (years)	3.8	3.2
Volatility in the price of the Company's shares (%)	41.5	49.8
Forfeiture rate (%)	5.0	5.0
Dividend yield (%)	1.6	1.7

The expected hold period, volatility, forfeiture rate 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 parameters used in grant during the 2012 year and the average parameters for all three grants during the 2011 year.

17. INCOME TAXES

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

(in thousands of dollars)	**2012** **$**	**2011** **$**
Statutory federal and provincial taxes at 25.47% (2011 – 27.03%)	**4,644**	1,246
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**663**	39
Effect of permanent differences	**(624)**	257
Non-taxable foreign income, other tax exempt income and other items	**61**	(388)
At the effective income tax rate of 26% (2011 – 25%)	**4,744**	1,154

A reconciliation of the Company's deferred tax liabilities is as follows:

(in thousands of dollars)	**2012** **$**	**2011** **$**
Balance, beginning of the year	**5,068**	4,848
Tax (recovery) expense during the year recognized in net income	**(412)**	185
Tax (recovery) expense during the year recognized in other Comprehensive loss	**(59)**	35
At the effective income tax rate of 26% (2011 – 25%)	**4,597**	5,068

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

(in thousands of dollars)	**2012** **$**	**2011** **$**
Property, plant and equipment	**3,060**	3,239
Land	**343**	343
Intangible assets	**1,344**	1,862
Inventories	**565**	571
Refundable insurance premiums	**110**	118
Non-deductible reserves and accrued liabilities	**(871)**	(603)
Loss carry forward	**—**	(308)
Scientific research and experimental development credits	**—**	(161)
Other	**46**	7
	4,597	5,068

The Company has utilized all of loss carry forwards for both Canadian and U.S. tax purposes. As at December 31, 2012, there was no loss carry forwards available to reduce taxable income in the future (2011 loss carry forwards – US federal US$264,000; US state US$1,538,000; Canada $603,000).

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)	**2012** **$**	**2011** **$**
Revenue	—	2,066
Manufacturing and selling costs	—	2,277
	—	(211)
Depreciation	—	19
General and administration	—	26
Gain on disposal of equipment	—	(31)
Loss on impairment of property, plant and equipment	—	—
	—	14
Loss before income taxes	—	(225)
Income tax recovery	—	(61)
Net loss from discontinued operations	—	(164)

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

(in thousands of dollars)	**May 31, 2011** **$**
Inventory	530
Equipment	397
Total carrying values of assets disposed	927

c) Cash used in discontinued operations are as follows:

(in thousands of dollars)	2012 $	2011 $
Cash flows from continuing operations		
Net loss	—	(164)
Add items not affecting cash:		
Depreciation	—	19
Gain on disposal of assets	—	(31)
Cash used in discontinued operations	—	(176)

19. EARNINGS PER SHARE

The following table sets forth the net income 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)	2012 $	2011 $
Net income from continuing operations	**13,490**	3,454
Net loss from discontinued operations	—	(164)
Net income	**13,490**	3,290

Denominator (in thousands)	2012 #	2011 #
Weighted average shares outstanding - basic	**28,860**	28,802
Effect of dilutive securities:		
Stock options	**265**	—
Weighted average shares outstanding - diluted	**29,125**	28,802

20. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for $31,000 (2011 - $30,000) for the year ended December 31, 2012, 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 fair value being normal commercial rates for the products. Accounts payable and accrued liabilities at December 31, 2012 included $3,000 (December 31, 2011 - $nil) 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)	2012 $	2011 $
Salaries, benefits and director fees	**1,129**	1,126
Share-based payments	**210**	164
Total	**1,339**	1,290

The Company has identified the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer 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, 2012 and 2011. Share-based payments are the amount of expense recognized in the consolidated statement of income relating to the identified key management and directors.

21. FINANCE EXPENSE

For the year ended December 31,

(in thousands of dollars)	**2012** **$**	**2011** **$**
Short-term interest, net of interest income	**573**	940
Interest, long term obligations	**197**	332
	770	1,272

22. 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, 2012 and 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, 2012 was prime plus 100 basis points, 4% (December 31, 2011 - prime plus 100 basis points, 4%) adjusted quarterly based on certain financial indicators of the Company. The effective interest rate on the term loan balance at December 31, 2012 was US LIBOR rate plus 250 basis points, 2.71% (December 31, 2011 – US LIBOR rate plus 250 basis points, 2.75%), adjusted quarterly based on certain financial indicators of the Company. 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, 2012 would have impacted net income before tax for the year then ended by approximately $85,000.

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, 2012, the Company converted US dollar cash to Canadian 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, 2012. 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, 2012,

(in thousands of US dollars)	Foreign Operations $	Domestic Operations $	Total $
Cash and cash equivalents	**2,656**	**1,127**	**3,783**
Accounts receivable	**13,514**	**4,284**	**17,798**
Restricted cash	**250**	**—**	**250**
Accounts payable and accrued liabilities	**(8,471)**	**(1,234)**	**(9,705)**
Trade balances with self-sustaining foreign entities	**—**	**(1,309)**	**(1,309)**
Long term debt	**—**	**(4,818)**	**(4,818)**
Net balance sheet exposure	**7,949**	**(1,950)**	**5,999**

Operating exposure for the year ended December 31, 2012,

(in thousands of US dollars)	$
Sales	**115,027**
Operating expenses	**92,994**
Net operating exposure	**22,033**

The weighted average US to Canadian dollar translation rate was 1.00 for the year ended December 31, 2012. The translation rate as at December 31, 2012 was 1.00.

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, 2012,

(in thousands of US dollars)	$
Net balance sheet exposure of other operations	**(250)**
Net operating exposure of foreign operations	**2,820**
Change in net income	**2,570**

Other comprehensive income (loss) would have changed $1,017,000 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 large number of customers and by a significant portion of the customers being large international organizations. As at December 31, 2012 and 2011, 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 $27,338,000 as at December 31, 2012 (December 31, 2011 - $19,472,000). On a geographic basis as at December 31, 2012, approximately 48% (December 31, 2011 – 47%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 52% (December 31, 2011 – 53%) was due from US customers.

Payment terms are generally net 30 days. The aging of trade accounts receivable prior to including the allowance for doubtful accounts were as follows:

As at December 31,

	2012	**2011**
Current	**60%**	51%
Past due 1 to 30 days	**27%**	27%
Past due 31 to 60 days	**6%**	12%
Past due 61 to 90 days	**2%**	8%
Past due greater than 90 days	**5%**	2%
	100%	100%

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 $1,131,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2011 - $436,000).

The Company had recorded an allowance for doubtful accounts of $275,000 as at December 31, 2012 (December 31, 2011 - $355,000). The allowance is an estimate of the December 31, 2012 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of $110,000 (2011 - $145,000), offset by payments of $110,000 (2011 - $95,000), write offs of $76,000 (2011 - $47,000) and a translation adjustment of $4,000 (2011 - $8,000) for the year ended December 31, 2012.

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 their 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** $	**2013** $	**2014** $	**2015** $	**Thereafter** $
Accounts payable, accrued liabilities and provisions	**19,876**	19,267	609	—	—
Dividends payable	**580**	580	—	—	—
Long term debt	**4,762**	1,350	3,412	—	—
Total	**25,218**	21,197	4,021	—	—

23. STATEMENT OF CASH FLOWS

For the year ended December 31,

(in thousands of dollars)	**2012** $	**2011** $
Net interest paid	**823**	1,206
Income taxes paid	**4,616**	133
	5,439	1,339

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 and retained earnings.

a) Long term debt and adjusted capital employed:

As at December 31,

(in thousands of dollars)	2012 $	2011 $
Current portion of long term debt *[note 11]*	**1,350**	1,687
Current portion of preferred shares *[note 12]*	**—**	57
Long term debt *[note 11]*	**3,412**	4,587
Preferred shares *[note 12]*	**—**	5,125
Total long term debt	**4,762**	11,456
Share capital	**70,980**	69,862
Contributed surplus	**2,609**	2,177
Equity component of preferred shares *[note 12]*	**—**	845
Retained earnings	**20,273**	8,373
Adjusted shareholders' equity	**93,862**	81,257
Adjusted capital employed	**98,624**	92,713

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 5% as at December 31, 2012 (December 31, 2011 – 12%) to be low. Adjusted capital employed is defined 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 tangible net worth ratio, a fixed charge coverage 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 International Financial Reporting Standards.

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

	Dec 31, 2012 Actual	Dec 31, 2012 Required	Dec 31, 2011 Actual	Dec 31, 2011 Required
Minimum equity value	**$86 million**	**>$50 million**	$74 million	>$50 million
Debt to tangible net worth	**0.10**	**<2.0**	0.15	<2.0
Fixed charge coverage ratio	**5.07**	**>1.5**	3.93	>1.5
Current ratio	**2.16**	**>1.25**	1.92	>1.25

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").

a) Information about reportable segments

For the year ended December 31,

	Underground		**Aboveground**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	**114,442**	101,590	**55,917**	25,456	**170,359**	127,046
Manufacturing and selling costs	**94,019**	84,234	**46,421**	23,358	**140,440**	107,592
Gross profit	**20,423**	17,356	**9,496**	2,098	**29,919**	19,454

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**		**Intangible assets and goodwill**	
As at	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Underground	**18,908**	18,311	**20,265**	20,292	**32,092**	34,081
Aboveground	**3,749**	5,960	**5,828**	5,791	**3,940**	4,211
Total	**22,657**	24,271	**26,093**	26,083	**36,032**	38,292

The only assets that can be identified by reportable segments are inventories, property, plant and equipment, intangible assets and goodwill. All other current and long term assets, as well as current and long term liabilities are not segregated into the reportable segments.

b) 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, 2012 and 2011, no single customer exceeded 10% of total revenue.

c) Information about geographic areas

For the years ended December 31,

	Revenues	
	2012	**2011**
(in thousands of dollars)	**$**	**$**
Canada	**79,317**	55,034
United States	**87,865**	68,382
International	**3,177**	3,630
	170,359	127,046

	Total assets		Property, plant and equipment, intangible assets and goodwill	
As at	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Canada	**54,510**	52,218	**24,981**	26,220
United States	**63,233**	58,898	**35,983**	36,604
International	**2,783**	2,783	**1,161**	1,551
	120,526	113,899	**62,125**	64,375

26. IMPAIRMENT TESTING OF GOODWILL

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

- Underground Canada
- Underground US
- Aboveground

Carrying amount of goodwill allocated to each CGU

	Underground Canada		Underground US		Aboveground	
As at	**Oct 1, 2012**	**Oct 1, 2011**	**Oct 1, 2012**	**Oct 1, 2011**	**Oct 1, 2012**	**Oct 1, 2011**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Goodwill	**1,377**	1,377	**25,319**	26,586	**2,641**	2,641

The Company performed its annual goodwill impairment test as at October 1, 2012. Among other factors, the Company considers the relationship between the fair values less cost to sell ("FVLCS") of its CGUs, to their carrying amounts, when reviewing for indicators of impairment. As at October 1, 2012, 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, 2012, 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 October 1, 2012 figures above may differ from the October 1, 2011 carrying amount. There has been no impairment of goodwill recognised in the 2012 or 2011 year.

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. 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 (13.6% to 14.4%), Underground U.S. (16.4% to 17.2%) and Aboveground (23.5% to 24.3%).

Growth rate estimates:
Growth rates for 2013 are established using the board approved budgeted growth rate by CGU. Longer term growth rates are established using the Strategic Plan for each CGU. Both the 2013 operating budget and the 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 48% in the worst case scenario before a deficiency would be created. For the Underground US CGU, the specific risk premium would need to increase 25% and with the Aboveground CGU, the specific risk premium would need to increase 79% 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 85% of our current expectations; the Underground U.S. CGU would have to fall to 89%; and the gross profit for the Aboveground CGU would have to fall to 65% of its current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2012, 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.

CORPORATE INFORMATION

Board of Directors
Anthony (Tony) P. Franceschini, Chair of the Board
Ronald M. Bachmeier, President, CEO, Director
Leonard A. Cornez, Director
Roderick W. Graham, Director
Allan S. Olson, Director
Harold A. Roozen, Director
D. Bruce Bentley, Director

Annual General and Special Meeting
1:30 p.m. on Friday, May 10, 2013
at The Sandman Inn (Great Room 1)
10111 Ellerslie Road, SW
Edmonton, Alberta
Canada T6X 0J3

Corporate Office
1420 Parsons Road, SW
Edmonton, Alberta
Canada T6X 1M5

Common Shares Outstanding
As of March 7, 2013
Total Outstanding: 29,121,209

Investor Relations
Copies of this Annual Report may be obtained
by calling Investor Relations at 780-466-6648
or e-mailing IR@zcl.com

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10020 – 100 Street
Edmonton, Alberta
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General Counsel
Bennett Jones LLP
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10020 – 100 Street
Edmonton, Alberta
Canada T5J 0N3

Stock Listing and Share Symbol
Toronto Stock Exchange: ZCL