

# ZCL<sup>®</sup>

COMPOSITES INC.

Annual Report

# 2013



making a **lasting** difference<sup>®</sup>

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## Message to Shareholders

Overall, I look back at 2013 as a successful year for ZCL. We posted records for net income of \$14.4 million, EBITDA of \$25.7 million, and fully diluted earnings per share of \$0.49. In addition, we achieved a Return on Capital Employed of 29%, up from just 12% as recently as 2011. However, the results of the fourth quarter of 2013 were weaker compared to the same quarter of 2012, due to significantly lower revenues from the Aboveground operating segment. Although we have made improvements in operating efficiencies in many areas of our business, there is still room for improvement. The sequential drop we saw in fourth quarter margins of 2013 was the result of short term volume, customer mix and product mix issues.

After growing our revenues by 34% in 2012, we saw a 5% decline in revenues in 2013. Short term factors in our Corrosion Products group caused this revenue decline. We did see growth in both our Petroleum and Water Products groups in 2013, and we expect that growth to continue in 2014. The signals we are getting from customers in our Petroleum Products markets indicate that 2014 should be another good year as both new construction and accelerating tank replacement programs will drive that growth. We also expect continued growth in our Water Products group, as both a gradual increase in overall North American construction activity and the increasing severity of water shortages in large parts of the markets we serve, will drive the growth.

While our Underground segment is poised for growth in 2014, short-term market uncertainty and lack of visibility in our Aboveground segment means achieving 2014 growth in Corrosion Products is not assured. Over the long term, we expect that the oil and gas energy renaissance that is occurring throughout North America will continue to transform both the energy markets and the industrial chemical markets that we serve, leading to growth in revenues from each of them. Our Industrial Corrosion customers' capital investment spending cycles appear to be well primed for expansion as cheap and abundant natural gas drives the re-shoring and expansion of North America's industrial chemical manufacturing base.

We will purposefully direct our efforts towards achieving profitable revenue growth in 2014 and beyond.

ZCL exits 2013 with a very strong balance sheet with working capital of \$47.8 million and a net cash position of \$15.1 million, both of which give ZCL great financial flexibility as we search out the strategic growth opportunities before us. Given our financial strength and confidence in our future cash flow generating capabilities, I am pleased to report the Board declared a 17% increase in the quarterly dividend to \$0.035 per share.

I can assure you, that while we take great pride in the improvements we have made in ZCL's financial performance, the ZCL team is not satisfied. We believe in the concept of continuous improvement and we are resolute in our commitment to the journey we are on. While the pace of profitability improvement we have seen over the past three years, which includes an 11 percentage point improvement in gross margin and an almost 14 percentage point improvement in EBITDA margin, will moderate in the coming quarters, we think that future incremental improvements are still possible.

I want to thank our shareholders for their continued support of ZCL. I look forward to our next correspondence with shareholders that will occur in early May 2014 when we release our first quarter 2014 results. I also want to remind shareholders of our upcoming Annual General Meeting to be held in Edmonton on Friday, May 9, 2014. I want to extend an invitation to all shareholders to attend this meeting and I look forward to seeing many of you at that time.

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, 2013, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2013. The statements are available on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's Web site at [www.zcl.com](http://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, adjusted EBITDA, funds from continuing operations, working capital, return on capital employed, net debt, net cash 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, 2014.

### 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 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**

Overall, 2013 was a successful year for ZCL. We posted records for net income of \$14.4 million, adjusted EBITDA of \$25.6 million, and fully diluted earnings per share of \$0.49. In addition, we achieved a return on capital employed (see the "Non-IFRS Measures" section later in this MD&A) of 29%, up from just 12% as recently as 2011.

### **Financial Results**

#### *Revenue*

Revenue for the year ended December 31, 2013 was \$161.7 million, down \$8.7 million or 5% from \$170.4 million for the year ended December 31, 2012. The Underground operating segment grew 6% and Petroleum Products achieved record annual revenues. The overall decrease in revenue was attributable to the Aboveground operating segment.

#### *Gross Profit*

Gross profit for the year ended December 31, 2013 was \$33.5 million, up \$3.6 million or 12% from \$29.9 million a year earlier. Gross margin increased to 21% of revenue for 2013, up from 18% a year earlier, with the increase attributed to process improvements in operations, changes in customer mix, and in the Underground segment, increased sales volume without a corresponding increase in the fixed cost base.

#### *Net Income*

Net income for the year ended December 31, 2013 was \$14.4 million, up \$0.9 million or 7% from \$13.5 million a year earlier. Net income per diluted share for 2013 was \$0.49, up \$0.03 from \$0.46 per diluted share a year earlier. Excluding a 2012 redemption of preferred shares and settlement of financial claims, which provided earnings per share of \$0.05, the earnings per share increase over 2012 would have been \$0.07 or 17%.

#### *Net Cash*

As at December 31, 2013, ZCL had a net cash and cash equivalents ("net cash") balance of \$15.1 million compared to \$3.7 million as at September 30, 2013 and \$0.1 million as at December 31, 2012.

#### *Dividends*

Given our financial strength and confidence in our future cash flow generating capabilities, we are pleased to report the Board declared a 17% increase in the quarterly dividend to \$0.035 per share for the fourth quarter of 2013, up from \$0.03 per share previously. The dividend will be paid on April 15, 2014, to the shareholders of record as of March 31, 2014.

**Backlog**

(\$millions)	December 31
2013	38.9
2012	35.2
% change	11%

As of December 31, 2013, backlog was \$38.9 million, up \$3.7 million or 11% from \$35.2 million a year earlier. The overall increase resulted from growth in the Underground backlog, which was partially offset by a decline in the Aboveground backlog compared to December of 2012. In addition, December 2013 backlog included \$1.4 million on the conversion of US dollar backlog to Canadian dollars for reporting purposes, primarily in the Underground segment.

The Aboveground backlog decline reflects continued softness in new order activity in the Oil Sands, industrial chemicals and power generation markets.

In the Underground segment, compared to 2012, the Canadian operations backlog was up \$5.5 million due to a very successful pre-order program. The US operations backlog was up 12% including a 7% positive impact due to foreign exchange conversion of US dollar backlog to Canadian dollars for reporting purposes.

Total backlog of \$38.9 million increased by \$1.6 million or 4% over the \$37.3 million backlog as at September 30, 2013. The increase is primarily attributable to the Aboveground operating segment, with the Corrosion Products backlog increasing by 30%. In Underground, Water Products backlog increased by 28% over September 2013.

The Petroleum Products group backlog decreased by 5% over September 2013, primarily due to the traditional seasonality of the Underground business.

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.

Backlog is a non-IFRS measure and does 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.

**2013 Report Card and Outlook**

*2013 Report Card*

For 2013, our focus was on profitable growth through our "simplify to grow" strategy. The five key aspects of ZCL's 2013 strategic plan were as follows:

- Focus on quality:
  - Improve our quality control processes through lean initiatives in order to reduce rework and disruptions in the production flow.  
*Results: Achieved improvements with in-plant quality control pass rates, on-time delivery and cosmetic quality.*
- Improve profitability:
  - Exceed the 13% adjusted EBITDA achieved in 2012 and improve gross margins as a percentage of revenue by 2% from 18% in 2012.  
*Results: Exceeded both targets with adjusted EBITDA of 16% of revenue and gross margins of 21%.*
- 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.  
*Results: Achieved the goal to shorten underground storage tank lead times by 25%.*
- Expand employee integration:
  - Refine employee compensation package to further align employee goals and objectives with ZCL's strategic priorities and shareholder interests.  
*Results: Achieved improvements through refined compensation and performance management systems.*
- Continued focus on safety:
  - Continuation of the standardization of our safety policies, procedures and metrics.  
*Results: Achieved improvement in company safety metrics.*

### *2014 Strategic Priorities & Outlook*

For 2014, our strategic priorities are now more directly focused on growth while maintaining profitability under the continuous improvement umbrella. While our Underground segment is poised for growth, short term market uncertainty and lack of visibility in our Aboveground segment means achieving growth in Corrosion Products is not assured.

The four key aspects of the 2014 strategic plan include:

- Revenue growth:
  - Targeting and engaging expanded sales channels to strategically penetrate existing and emerging markets.
- Increase profitability:
  - Continuous improvement in operations by increased use of automation, expanded use of KPIs and leveraging our supply chain to optimize materials management.
- Invest in human capital:
  - Continue to use ZCL employee branding to make ZCL the employer of choice.
- Continued focus on safety:
  - Implement behavioral change to drive safety improvements.

Our operations group plans to increase the capital investment in 2014 in order to further progress lean initiatives within our facilities. This will include increasing the capital budget for 2014 for process improvement projects in addition to the standard maintenance capital requirements. ZCL's maintenance capital requirements are historically between \$3 million to \$5 million annually. For 2014, ZCL's capital budget is planned to be at the upper end of that range in order to upgrade certain of our existing facilities and equipment with the intent to further improve lead times and process flow.

Our outlook by product group is as follows:

### *Petroleum Products*

Petroleum Products is our largest revenue group and the most mature market. Backlog is strong and management expects to see moderate growth in this product group. The signals we are getting from customers in our Petroleum Products markets indicate that 2014 should be another good year as both new construction and accelerating tank replacement programs will drive that growth.

### *Water Products*

Our Water Products group also appears to be poised for continued growth, as Water products backlog has continued to increase. A gradual increase in overall North American construction activity and the increasing severity of water shortages in large parts of the markets we serve should drive this growth. This market has been affected by a reduction in infrastructure spending at all levels of government as economic stimulus programs were wound down. However, as the overall economy continues to strengthen, government funding will be a less significant factor in driving growth for Water Products.

### *Corrosion Products*

We anticipate lower revenues in the first half of 2014, as evidenced by the low backlog level at December 31, 2013 compared with December 31, 2012. The outlook for the second half of 2014 is uncertain at this time but over the long term we expect that the oil and gas energy renaissance that is occurring throughout North America will continue to transform both the energy markets and the industrial chemical markets that we serve, leading to growth in revenues from each of them. Our Industrial Corrosion customers' capital investment cycles appear to be well primed for expansion as cheap and abundant natural gas drives the re-shoring and expansion of North America's industrial chemical manufacturing base.

Corrosion Products continues to represent our largest long term opportunity for growth. Key factors influencing this positive longer term outlook are the externally forecasted future capital spending in the Oil Sands market and the continued recovery in the power generation and industrial chemical markets, driven by low natural gas pricing.

## Management's Discussion and Analysis

### SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Year Ended December 31		
	2013 \$	2012 \$	2011 \$
Underground Fluid Containment Revenue	121,692	114,442	101,590
Aboveground Fluid Containment Revenue	40,012	55,917	25,456
<b>Total revenue</b>	<b>161,704</b>	<b>170,359</b>	<b>127,046</b>
Gross profit (note 1)	33,482	29,919	19,454
Gross margin (note 1)	21%	18%	15%
General and administration	8,552	8,571	9,986
Foreign exchange (gain) loss	(46)	43	(373)
Depreciation, amortization and finance expense	4,437	4,443	5,589
Loss (gain) on disposal of assets	106	(246)	(356)
Gain on redemption of preferred shares	-	(670)	-
Impairment of assets	-	182	-
Other items	-	(638)	-
Income tax expense	6,048	4,744	1,154
<b>Net income from continuing operations</b>	<b>14,385</b>	<b>13,490</b>	<b>3,454</b>
Net loss from discontinued operations	-	-	(164)
<b>Net income</b>	<b>14,385</b>	<b>13,490</b>	<b>3,290</b>
<b>Earnings per share from continuing operations</b>			
Basic	0.49	0.47	0.12
Diluted	0.49	0.46	0.12
<b>Cash dividends declared per common share</b>	<b>0.11</b>	<b>0.055</b>	<b>-</b>
<b>Adjusted EBITDA (note 1)</b>	<b>25,600</b>	<b>22,518</b>	<b>10,349</b>
Adjusted EBITDA as a % of revenue	16%	13%	8%
<b>Cash Flows</b>			
Funds from continuing operations (note 1 & 2)	18,413	15,152	8,417
Changes in non-cash working capital	(521)	(5,355)	4,782
Net repayment of:			
Bank indebtedness	-	-	(8,565)
Long term debt	(1,350)	(1,376)	(4,824)
Redemption of preferred shares	-	(2,075)	-
Issuance of common shares on exercise of stock options	2,934	847	-
Dividends paid	(2,923)	(1,010)	-
Purchase of capital and intangible assets, net of disposals	(2,965)	(2,810)	(1,145)
Business acquisition, net of disposals	-	-	1,336
(in thousands of dollars)	As at December 31		
	2013 \$	2012 \$	2011 \$
<b>Financial Position</b>			
Working capital (note 1)	47,844	31,655	23,387
Total assets	134,315	120,526	113,899
Return on capital employed (note 1)	29%	27%	12%
Net debt (note 1)	-	-	4,567
Net cash and cash equivalents (note 1)	15,146	84	-
Total non-current liabilities	7,397	8,618	15,229

Note 1: Gross profit, gross margin, adjusted EBITDA, funds from continuing operations, working capital, return on capital employed, 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		
	2013	2012	% change
<b>Underground Fluid Containment:</b>			
Petroleum Products	<b>104,878</b>	98,601	6%
Water Products	<b>16,814</b>	15,841	6%
	<b>121,692</b>	114,442	6%
<b>Aboveground Fluid Containment:</b>			
Corrosion Products	<b>40,012</b>	55,917	(28%)
	<b>161,704</b>	170,359	(5%)

Revenue was \$161.7 million for the year ended December 31, 2013, down \$8.7 million or 5% from \$170.4 million as compared to the prior year. Revenue generated by the Petroleum and Water Product groups grew, but these increases were offset by the decrease in the Corrosion Products group. The change in revenue reflects the factors noted below:

*Underground Fluid Containment*

Underground revenue of \$121.7 million, was \$7.3 million or 6% higher for the year ended December 31, 2013, compared with the year ended December 31, 2012.

The \$6.3 million or 6% increase in Petroleum Products revenue was attributable to both the Canadian and US operations with an increase of \$4.0 million or 4%, prior to a positive foreign exchange conversion impact for reporting purposes.

In the US, sales to distributors and contractors were up 16% over 2012. Sales to retail petroleum marketers were up slightly compared to 2012.

Canadian Petroleum Products revenue in 2013 was up \$2.4 million or 9% from 2012, attributable to an increase in sales to distributors, contractors and retail petroleum marketers, and partially offset by a decrease in sales to major oil customers.

Petroleum Products revenue also includes international operations which were down \$0.4 million due to lower Parabeam® sales, as compared to 2012.

The 6% increase in Water Products revenue in 2013 compared with 2012 was attributable to Canadian sales, which rose by \$1.0 million or 26% compared to 2012. A 3% decrease in US Water Products was offset by a positive impact on the conversion of US to Canadian

dollar sales for reporting purposes. The reduction in US government economic stimulus spending is being offset by increasing commercial and residential construction spending, albeit at a slow pace, in the residential segment.

*Aboveground Fluid Containment*

Aboveground revenue of \$40.0 million for 2013 was \$15.9 million or 28% lower than \$55.9 million a year earlier. Oil Sands revenue decreased by over \$7.0 million as compared to 2012. In the Industrial Corrosion market, revenue was down \$9.5 million prior to a \$0.7 million positive foreign exchange conversion impact for reporting purposes. A \$5.9 million increase in field service revenue was more than offset by products revenue decrease of \$19.4 million as compared to 2012.

The Aboveground operating segment is more dependent on larger orders that have a longer order cycle from planning to order fulfilment than the Underground operating segment, and the timing of revenue is impacted accordingly.

**Gross Profit**

(\$000s)	Twelve Months			
	2013	2012	% change	% of rev 2013
Underground Fluid Containment	<b>25,451</b>	20,423	25%	21%
Aboveground Fluid Containment	<b>8,031</b>	9,496	(15%)	20%
	<b>33,482</b>	29,919	12%	21%

In 2013, gross profit of \$33.5 million increased by \$3.6 million or 12% compared to 2012. Gross margin increased to 21% from 18% in 2012. The changes reflect the factors discussed below:

*Underground Fluid Containment*

Underground gross profit of \$25.5 million was up \$5.0 million or 25% from \$20.4 million in 2012. Gross margin of 21%, a three percentage point increase from 18% in 2012, was achieved with process improvements in operations, changes in customer mix, and increased sales volume without a corresponding increase in fixed costs. These factors were partially offset by the competitive pricing pressures that negatively impacted profitability.

## Management's Discussion and Analysis

### Aboveground Fluid Containment

Aboveground gross profit was \$8.0 million, down \$1.5 million or 15% from \$9.5 million in 2012. Gross margin of 20% improved three percentage points from 17% in 2012. The improvement in gross margin was derived from the Industrial Corrosion markets which were significantly impacted by a large low margin order in the prior year. The Industrial Corrosion market achieved both gross profit and gross margin improvements in 2013 compared to 2012. However these improvements were partially offset by lower activity in the Oil Sands market in 2013.

### General and Administration

(\$000s)	Twelve Months
2013	8,552
2012	8,571
% change	nil

General and administration ("G&A") expense for the year ended December 31, 2013 was comparable to 2012. Inflationary pressures were offset by lower restructuring costs in 2013 as compared to 2012.

### Foreign Exchange (Gain) Loss

(\$000s)	Twelve Months
2013	(46)
2012	43

The foreign exchange gain and 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 tables detail the US dollar and euro conversion rates.

### US Dollar Conversion Rates

Year Ended	2013		2012		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
Q1	1.01	1.02	1.00	1.00	1%	2%
Q2	1.02	1.05	1.01	1.03	1%	2%
Q3	1.04	1.03	1.00	0.98	4%	5%
Q4	1.05	1.07	0.99	1.00	6%	7%
<b>Annual</b>	<b>1.03</b>	<b>1.07</b>	<b>1.00</b>	<b>1.00</b>	<b>3%</b>	<b>7%</b>

### euro Conversion Rates

Year Ended	2013		2012		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
Q1	1.33	1.31	1.31	1.33	2%	2%
Q2	1.34	1.37	1.30	1.29	3%	6%
Q3	1.38	1.39	1.25	1.27	10%	9%
Q4	1.43	1.47	1.29	1.32	11%	11%
<b>Annual</b>	<b>1.37</b>	<b>1.47</b>	<b>1.29</b>	<b>1.32</b>	<b>6%</b>	<b>11%</b>

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
2013	3,991
2012	3,673
% change	9%

The 9% year over year increase in depreciation and amortization expense primarily resulted from the increase in maintenance capital expenditures incurred in the fourth quarter of 2012. Overall, annual maintenance capital expenditures were consistent with the prior year at approximately \$3.0 million per year.

### Finance Expense

(\$000s)	Twelve Months
2013	446
2012	770
% change	(42%)

The \$0.3 million or 42% reduction in finance expense in 2013 compared to 2012 was the result of a reduction in net debt and the redemption of the preferred shares that occurred during June of 2012 as discussed in further detail below. In addition, in 2013 the Company was able to significantly reduce the use of bank indebtedness as compared to 2012.

**Disposal of Assets, Settlement of Preferred Shares and Other Items**

In 2012, management entered into an agreement with the former owner of Dualam Plastics Inc. ("DPI"), now ZCL-Dualam Inc. ("ZCL Dualam"), 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 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 claims settlement was included in provisions.

**Income Taxes**

Income tax expense for the year ended December 31, 2013, represented 29.6% of pre-tax income, compared to 26.0% of pre-tax income in 2012. The change in the effective tax rate from the prior year is due to a higher percentage of earnings in the US versus Canada as the corporate tax rates in the US are higher than Canada. In addition, the prior year gain on the redemption of the preferred shares and the gain on disposal of assets resulted in a reduction in the 2012 effective tax rate. Those gains were not taxed at the same rate as operating income, therefore reducing the effective tax rate in 2012 compared to the current period.

**LIQUIDITY AND CAPITAL RESOURCES**

**Working Capital**

As at December 31, 2013, the Company increased working capital (current assets less current liabilities) by \$16.2 million to \$47.8 million compared to \$31.7 million as at December 31, 2012. The majority of the increase was attributed to positive cash flows from operations of \$18.4 million. Decreases in accounts receivable also contributed to the improvement in working capital.

As at December 31, 2013, the Company had cash and cash equivalents of \$18.9 million (December 31, 2012 - \$4.8 million) and net cash of \$15.1 million (December 31, 2012 - net cash of \$0.1 million). Net debt and net cash are defined later in this MD&A under "Non-IFRS Measures."

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.

**Comprehensive Income (Loss)**

Comprehensive income (loss) for each period is comprised of net income and the effects of 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 the impact of the translation of foreign operations on comprehensive income before the impact of net income.

(\$000s)	Twelve Months
2013	4,219
2012	(954)

The foreign translation gain in the year ended December 31, 2013 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the year from 1.00 to 1.07. In 2012, the US dollar dropped from 1.02 to 1.00 and generated a loss on the translation of foreign operations.

**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, reduced by priority claims. The operating facility is due on demand and matures on May 31, 2015.

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, 2015. The interest charged on the loan is the US dollar based 30-day LIBOR plus 225 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.

**Share Capital**

During the year ended December 31, 2013, the company issued 812,917 shares on the exercise of stock options.

## Management's Discussion and Analysis

### Cash Flows

(\$000's)	Twelve Months	
	2013	2012
Operating activities	17,892	9,797
Financing activities	(1,339)	(3,614)
Investing activities	(2,965)	(2,810)
Foreign exchange <sup>(1)</sup>	448	(234)
	14,036	3,139

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

#### Operating Activities

The cash flows from operating activities reflect the net impact of i) funds from 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 operations totalled \$18.4 million for the year ended December 31, 2013, up \$3.3 million from \$15.2 million for the year ended December 31, 2012. The increase relative to 2012 is due primarily to the improvement in overall gross profit.

Changes in non-cash working capital totalled negative \$0.5 million for the year ended December 31, 2013 compared to negative \$5.4 million for the year ended December 31, 2012. The decrease in accounts receivable was the major contributing factor for the reduction in non-cash working capital requirements relative to 2012. This accounts receivable decrease was partially offset by a decrease in accounts payable, accrued liabilities and provisions and income taxes payable as at December 31, 2013 relative to December 31, 2012.

#### Financing Activities

Cash flows used in financing activities were \$1.3 million for the year ended December 31, 2013 compared to \$3.6 million for the year ended December 31, 2012. The exercise of stock options in 2013 generated \$2.9 million in cash inflows compared to the \$0.8 million generated in 2012. The dividends paid in 2013 were \$2.9 million, a \$1.9 million increase over 2012. In 2012, there was a \$2.1 million cash outflow relating to the redemption of preferred shares issued on the acquisition of ZCL Dualam.

#### Investing Activities

The cash flows used in investing activities were \$3.0 million for the year ended December 31, 2013 compared to \$2.8 million for 2012. Purchases of property, plant and equipment and intangible assets were \$3.1 million for both the years ended 2013 and 2012, however there were higher proceeds on disposal of property, plant and equipment in 2012 relative to 2013.

#### 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 US 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 \$0.7 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, 2013, the performance letters of credit issued totalled \$1.4 million.

As at December 31, 2013, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled \$6.2 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
2014	1,350	2,449	3,799
2015	1,350	1,490	2,840
2016	1,036	1,157	2,193
2017	-	756	756
2018	-	336	336
Thereafter	-	-	-
Total	3,736	6,188	9,924

## Management's Discussion and Analysis

### 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, particularly in 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 Canadian to US dollar conversion rate has ranged from a low of 0.98 in the third quarter of 2012 to a high of 1.07 in the fourth quarter of 2013.

For the three months ended	2013				2012			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	37,715	43,931	47,250	32,809	44,866	50,067	42,850	32,576
Net income	1,769	4,993	5,087	2,536	2,876	4,805	4,207	1,602
Basic earnings per share	0.06	0.17	0.17	0.09	0.10	0.17	0.15	0.06
Diluted earnings per share	0.06	0.17	0.17	0.09	0.10	0.16	0.15	0.06
Dividends declared per share	0.03	0.03	0.025	0.025	0.02	0.015	0.01	0.01

## Management's Discussion and Analysis

### FOURTH QUARTER RESULTS

#### Selected Financial Information

(in thousands of dollars, except per share amounts)	Fourth Quarter Ended December 31	
	2013 \$	2012 \$
<b>Operating Results</b>		
<b>Revenue</b>		
Underground Fluid Containment	32,074	29,231
Aboveground Fluid Containment	5,640	15,635
<b>Total revenue</b>	<b>37,714</b>	<b>44,866</b>
Gross profit (note 1)	5,755	7,662
Gross margin (note 1)	15%	17%
General and administration	1,989	2,406
Foreign exchange (gain) loss	(52)	15
Depreciation and amortization	1,077	931
Finance expense	97	153
Loss on disposal of assets	106	10
Impairment of assets	-	182
Income tax expense	769	1,089
<b>Net income</b>	<b>1,769</b>	<b>2,876</b>
<b>Earnings per share</b>		
Basic	0.06	0.10
Diluted	0.06	0.10
<b>Cash dividends declared per common share</b>	<b>0.03</b>	<b>0.02</b>
<b>Adjusted EBITDA (note 1)</b>	<b>3,975</b>	<b>5,386</b>
Adjusted EBITDA as a % of revenue	11%	12%
<b>Cash Flows</b>		
Funds from operations (note 1 & 2)	2,667	4,167
Changes in non-cash working capital	9,174	5,421
Net repayment of:		
Bank indebtedness	-	(5,454)
Long term debt	(338)	(337)
Issuance of common shares on exercise of stock options	1,302	463
Dividends paid	(885)	(434)
Purchase of capital and intangible assets	(1,026)	(1,222)
Disposal of assets	125	182

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

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

## Management's Discussion and Analysis

### Overall Fourth Quarter Performance

Net income in the fourth quarter of 2013 was \$1.8 million, down 36% or \$1.0 million from \$2.9 million a year earlier. Earnings per diluted share in the fourth quarter of 2013 were \$0.06, down \$0.04 from \$0.10 per diluted share a year earlier. The decrease in net income was a result of significantly lower revenues from the Aboveground operating segment. A \$0.4 million decrease in general and administration costs as compared to the same quarter in 2012, was partially offset by an increase in depreciation and amortization.

### Revenue

(\$000s)	Fourth Quarter		
	2013	2012	% change
<b>Underground Fluid Containment:</b>			
Petroleum Products	27,634	25,544	8%
Water Products	4,440	3,687	20%
	<b>32,074</b>	29,231	10%
<b>Aboveground Fluid Containment:</b>			
Corrosion Products	5,640	15,635	(64%)
	<b>37,714</b>	44,866	(16%)

Revenue for the fourth quarter ended December 31, 2013, was \$37.7 million, down \$7.2 million or 16% from \$44.9 million in the fourth quarter of 2012. Increased revenue in the Underground operating segment was more than offset by a decrease in the Aboveground operating segment. The change in revenue reflects the factors noted below:

#### Underground Fluid Containment

Underground revenue of \$32.1 million was \$2.8 million or 10% higher in the fourth quarter of 2013, compared with \$29.2 million in the fourth quarter of 2012.

In the fourth quarter of 2013, Petroleum Products revenue was \$27.6 million, up \$2.1 million or 8% from \$25.5 million in the same period last year, the increase attributable to the Canadian operations. Canadian Petroleum Products revenue was up \$2.8 million, primarily due to an increase in sales to distributors and retail stations. Sales to major oil customers were down compared to the same quarter of 2012.

In the US, sales were down 8% compared to the same quarter in 2012, prior to a positive impact on the US to Canadian dollar translation for reporting purposes of approximately \$1.0 million. Sales to distributors, contractors were down 3%, and sales to retail service station customers were down slightly over the 2012

fourth quarter revenue. The decrease was a result of a \$1.1 million decrease in sales to other customers which had a particularly strong fourth quarter in 2012 with sales of \$1.4 million.

Petroleum Products also includes revenue from international operations, which was down in the fourth quarter of 2013 due to lower Parabeam® sales, as compared to the same quarter in 2012.

Water Products revenue for the fourth quarter of 2013 of \$4.4 million was up \$0.8 million or 20% from \$3.7 million in the fourth quarter of 2012. The increase was attributable to the Canadian market which was up \$0.9 million over the fourth quarter of 2012 and included a small positive foreign exchange translation adjustment for reporting purposes.

#### Aboveground Fluid Containment

Aboveground revenue of \$5.6 million in the fourth quarter of 2013 was \$10.0 million or 64% lower than \$15.6 million in the same quarter a year earlier, with the decrease attributable to both US and Canadian markets. Revenue from our Western Canadian Corrosion customers was down by \$1.2 million as compared to the same quarter in 2012. In Industrial Corrosion, revenue from our field service operations decreased significantly, as expected, due to the substantial completion of a major field service project at the end of third quarter of 2013. Also in Industrial Corrosion, product revenue was down \$4.2 million compared to the fourth quarter of 2012.

The Aboveground operating segment is more dependent on larger orders that have a longer order cycle from planning to order fulfillment than the Underground operating segment, and the timing of revenue is impacted accordingly.

### Gross Profit

(\$000s)	Fourth Quarter			
	2013	2012	% change	% of rev 2013
Underground Fluid Containment	5,673	5,167	10%	18%
Aboveground Fluid Containment	82	2,495	(97%)	2%
	<b>5,755</b>	7,662	(25%)	15%

In the fourth quarter of 2013, gross profit of \$5.8 million decreased by \$1.9 million or 25% compared to \$7.7 million for the same quarter in 2012. Gross margin decreased to 15% from 17% in the same quarter of 2012. These changes reflect the factors discussed below:

## Management's Discussion and Analysis

### Underground Fluid Containment

Underground gross profit of \$5.7 million was up \$0.5 million or 10% from \$5.2 million in the same quarter of 2012. Gross margin for the fourth quarter remained flat year over year at 18%.

Gross margin for US Underground operations increased slightly compared to the same quarter in 2012 prior to any impacts from foreign exchange. Gross margins in Canada decreased compared to the same quarter in 2012.

### Aboveground Fluid Containment

Aboveground gross profit was \$0.1 million, down \$2.4 million or 96% from \$2.5 million for the quarter ended December 31, 2012. Gross margin of 2% was down from 16% in the fourth quarter of 2012. The year over year decreases in both gross margin and gross profit were due to a lack of sales volume resulting in an inability to support the fixed manufacturing cost base in the Aboveground operating segment. The majority of the reduction in the gross profit and gross margin was derived from the Industrial Corrosion products group. In addition, a dispute settlement with a large customer contributed a four percentage point drop in the gross margin in the fourth quarter of 2013.

### General and Administration

(\$000s)	Fourth Quarter
2013	1,989
2012	2,406
% change	(17%)

General and administration ("G&A") expense of \$2.0 million for the fourth quarter ended December 31, 2013 was down \$0.4 million or 17% over the fourth quarter of 2012. The decrease was primarily a result of a reduction in restructuring costs when compared to the same quarter of 2012.

### Foreign Exchange (Gain) Loss

(\$000s)	Fourth Quarter
2013	(52)
2012	15

The foreign exchange (gain) loss for each quarter was 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 relative to the Canadian dollar.

### US Dollar and euro Conversion Rates

Fourth Quarter	2013		2012		Avg. Change	Close Change
	Avg.	Close	Avg.	Close		
USD	1.05	1.07	0.99	1.00	6%	7%
euro	1.43	1.47	1.29	1.32	6%	11%

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
2013	1,077
2012	931
% change	16%

The 16% increase in depreciation and amortization expense for the quarter ended December 31, 2013 compared to the quarter ended December 31, 2012, primarily resulted from higher maintenance capital expenditures.

### Finance Expense

(\$000s)	Fourth Quarter
2013	97
2012	153
% change	(37%)

The 37% reduction in finance expense in the third quarter of 2013 compared to the same quarter in 2012, was the result of an increase in net cash in 2013.

### Income Taxes

Income tax expense for the three months ended December 31, 2013, represented 30% of pre-tax income, compared to 28% of pre-tax income in the same quarter of 2012. The increase in the 2013 annual effective tax rate to 29.6% is a result of a higher percentage of earnings in the US which has a higher corporate tax rate.

### Comprehensive Income

Comprehensive income for each period is comprised of net income and the effects of 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.



## Management's Discussion and Analysis

The table below details the impact of the translation of foreign operations on comprehensive income before the impact of net income.

(\$000s)	Fourth Quarter
2013	2,319
2012	793

The foreign translation gain in the fourth quarter of 2013 was due to strengthening of the US dollar relative to the Canadian dollar throughout the three months from 1.03 to 1.07. In the fourth quarter of 2012, the US dollar also strengthened from 0.98 to 1.00.

### 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, 2013.

#### 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 on 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, 2013, was prime plus 75 basis points, 3.75% (December 31, 2012 - 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, 2013, was the 30 day US LIBOR rate plus 225 basis points, 2.41% (December 31, 2012 - US LIBOR rate plus 250 basis points, 2.71%), adjusted quarterly based on certain financial indicators of the Company. With other variables unchanged, an increase or decrease of 100 basis points in

#### Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of \$47.8 million as at December 31, 2013 was an improvement over the \$44.7 million at September 30, 2013. Positive cash flows from operations of \$2.7 million, as well as decreases in accounts receivable, inventory, and accounts payable contributed to the improvement in working capital.

the US LIBOR and Canadian prime interest rate as at December 31, 2013 would have a minimal impact on net income for the period ended December 31, 2013.

#### Foreign Exchange Risk

The Company operates on an international basis and is exposed to foreign exchange risk 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 on 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, 2013. 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").

## Management's Discussion and Analysis

Balance sheet exposure related to financial assets, net of financial liabilities, at December 31, 2013, was as follows:

(in thousands of US dollars)	\$
Foreign operations	15,365
Domestic operations	(2,264)
Net balance sheet exposure	13,101

Operating exposure for the twelve months ended December 31, 2013, was as follows:

(in thousands of US dollars)	\$
Sales	109,069
Operating expenses	94,588
Net operating exposure	14,481

The weighted average US to Canadian dollar translation rate was 1.03 for the year ended December 31, 2013. The translation rate as at December 31, 2013, was 1.07.

Based on the foreign currency exposures noted above, with other variables unchanged, a 20% decrease in the Canadian dollar would have impacted net income for the twelve months ended December 31, 2013, as follows:

(in thousands of US dollars)	\$
Net balance sheet exposure of domestic operations	(290)
Net operating exposure of foreign operations	1,853
Change in net income	1,563

Other comprehensive income would have changed \$2.0 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 upstream and downstream oil and gas and industrial corrosion sectors. The concentration risk is mitigated by the number of customers, growth and diversification of the customer base and by a significant portion of the customers being large international organizations. As at December 31, 2013, one customer exceeded 10% of the consolidated trade accounts receivable balance. The balance of \$3.9 million USD was being disputed by the customer and it was settled for \$3.5 million USD subsequent to the year end. The difference of \$0.4 million USD was included in the allowance for doubtful accounts at year end. 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 \$24.7 million as at December 31, 2013 (December 31, 2012 - \$27.4 million). On a geographic basis as at December 31, 2013, approximately 22% (December 31, 2012 - 48%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 78% (December 31, 2012 - 52%) was due from US customers. The change in geographic accounts receivable is mainly due to the disputed significant receivable of \$3.9 million that was settled after the year ended December 31, 2013.

## Management's Discussion and Analysis

Payment terms are generally net 30 days. As at December 31, 2013, the percentages of trade accounts receivable were as follows:

	December 31, 2013	December 31, 2012
Current	45%	60%
Past due 1 to 30 days	24%	27%
Past due 31 to 60 days	19%	6%
Past due 61 to 90 days	3%	2%
Past due greater than 90 days	9%	5%
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](http://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. With the ZCL Dualam acquisition, phase two assessments were undertaken and, as a result, the Company was aware of environmental issues on one of the remaining owned properties. This ZCL Dualam property has been fully remediated and no clean-up costs have been accrued in the 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 partially 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 liabilities 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, 2013 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 at least 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 of 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.

#### 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 specified liquids. In Canada, the Company markets a storage system under the Prezerver® trademark that carries an enhanced protection program.

The Preserver 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 Preserver 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 Preserver program.

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 Preserver program, 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 the enhanced Preserver 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.

### NEW ACCOUNTING STANDARDS

Certain new standards, interpretations and amendments have been released by the IASB and were effective for annual periods beginning on or after January 1, 2013. The Company has adopted the following new standards and interpretations in the audited consolidated financial statements and related notes for the year ended December 31, 2013:

#### ***IFRS 10: "Consolidated Financial Statements"***

This standard 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. The adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

#### ***IFRS 12: "Disclosure of Interests with Other Entities"***

The standard 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 adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

#### ***IFRS 13: "Fair Value Measurement"***

This standard 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. The adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

#### **Standards issued but not yet effective**

#### ***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 are effective for periods beginning on or after January 1, 2014 and the adoption of these amendments is not expected to impact the Company's financial statements.

Amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". These amendments are effective for periods beginning on or after January 1, 2014 and the adoption of these amendments is not expected to impact the Company's financial statements.

### CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & 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.

As at December 31, 2013, the CEO and the CFO have evaluated the effectiveness of the design and operation of our DC&P as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2013, our DC&P were effective to ensure that the material information relating to ZCL and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the MD&A and the consolidated financial statements were being prepared.

#### Internal Controls over Financial Reporting

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR. Management have assessed the effectiveness of our ICFR at December 31, 2013, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as at December 31, 2013, our ICFR was effective, and expect to certify ZCL's annual filings with the Canadian securities regulatory authorities.

#### Changes in Internal Control over Financial Reporting

Management has evaluated whether there were changes in the Company's ICFR during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified.

#### Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting

While management of the Company has evaluated the effectiveness of DC&P and ICFR as at December 31, 2013, and have concluded that these controls and procedures are being maintained as designed, they expect that the DC&P 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 \$27,000 (2012 - \$31,000) for the year ended December 31, 2013, included in manufacturing and selling costs in the consolidated statements of income or inventories were provided by a corporation whose Executive Chairman 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, 2013, included \$1,000 (December 31, 2012 - \$3,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

### OUTSTANDING SHARE DATA

As at March 7, 2014, there were 29,897,784 common shares and 1,876,396 share options outstanding. Of the options outstanding, 745,495 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](http://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, adjusted EBITDA, funds from continuing operations, working capital, net debt, net cash, return on capital employed 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.

Adjusted EBITDA is defined as income from operations before finance expense, income taxes, share-based compensation, depreciation of property, plant and equipment, amortization of deferred development costs and intangible assets, gains or losses on sale of assets, and impairment of assets. Readers are cautioned that adjusted 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.

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

Return on capital employed is defined as adjusted EBITDA divided by average capital employed, being average shareholders' equity, plus average long term debt, including current portion and average preferred shares, including current portion, less average cash and cash equivalents.

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.

## Management's Discussion and Analysis

### 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		
	2013	2012	2013	2012	2011
(in thousands of dollars)	\$	\$	\$	\$	\$
Revenue	37,714	44,866	161,704	170,359	127,046
Manufacturing and selling costs	31,959	37,204	128,222	140,440	107,592
Gross profit	5,755	7,662	33,482	29,919	19,454
<i>Gross profit as a % of revenue</i>	15%	17%	21%	18%	15%

The following table reconciles net income in accordance with IFRS to EBITDA and adjusted EBITDA.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2013	2012	2013	2012	2011
(in thousands of dollars)	\$	\$	\$	\$	\$
Net income from continuing operations	1,769	2,876	14,385	13,490	3,454
Adjustments:					
Depreciation and amortization	1,077	931	3,991	3,673	4,317
Finance expense	97	153	446	770	1,272
Income tax expense	769	1,089	6,048	4,744	1,154
EBITDA	3,712	5,049	24,870	22,677	10,197
Share-based compensation	157	145	624	575	508
Loss (gain) on disposal of property, plant & equipment	106	10	106	(246)	(356)
Gain on settlement of preferred shares	-	-	-	(670)	-
Impairment of assets	-	182	-	182	-
Adjusted EBITDA	3,975	5,386	25,600	22,518	10,349
<i>Adjusted EBITDA as a percentage of revenue</i>	11%	12%	16%	13%	8%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2013	2012	2013	2012	2011
(in thousands of dollars)	\$	\$	\$	\$	\$
Net income from continuing operations	1,769	2,876	14,385	13,490	3,454
Add (deduct) items not affecting cash:					
Depreciation and amortization	1,077	931	3,991	3,673	4,317
Deferred tax (recovery) expense	(442)	120	(693)	(412)	185
Loss (gain) on disposal of property, plant & equipment	106	10	106	(246)	(356)
Gain on settlement of preferred shares	-	-	-	(670)	-
Share-based compensation	157	145	624	575	508
Impairment of assets	-	182	-	182	-
Non-cash proceeds on settlement of claims	-	-	-	(1,348)	-
Other	-	(97)	-	(92)	309
Funds from continuing operations	2,667	4,167	18,413	15,152	8,417



## Management's Discussion and Analysis

The following table presents the calculation of working capital.

(in thousands of dollars)	As at		
	December 31, 2013	December 31, 2012	December 31, 2011
	\$	\$	\$
Current assets	70,004	57,728	47,873
Current liabilities	22,160	26,073	24,486
Working capital	47,844	31,655	23,387

The following table presents the calculation of net debt.

(in thousands of dollars)	As at		
	December 31, 2013	December 31, 2012	December 31, 2011
	\$	\$	\$
Long term debt (including current portion)	3,736	4,762	6,274
Bank indebtedness	-	-	-
Less: cash and cash equivalents	(18,882)	(4,846)	(1,707)
Net debt	n/a	n/a	4,567

The following table presents the calculation of net cash.

(in thousands of dollars)	As at		
	December 31, 2013	December 31, 2012	December 31, 2011
	\$	\$	\$
Cash and cash equivalents	18,882	4,846	1,707
Less: Bank indebtedness	-	-	-
Less: Long term debt (including current portion)	(3,736)	(4,762)	(6,274)
Net cash	15,146	84	n/a

The following table presents the calculation of return on capital employed.

(in thousands of dollars)	As at		
	December 31, 2013	December 31, 2012	December 31, 2011
	\$	\$	\$
Adjusted EBITDA	25,600	22,518	10,349
Average capital employed:			
Shareholders' equity	95,292	80,010	71,892
Bank indebtedness	-	-	4,283
Long term debt (including current portion)	4,291	5,518	8,703
Preferred shares (including current portion)	-	2,591	5,182
Less: cash and cash equivalents	(11,822)	(3,277)	(1,906)
Average capital employed	87,761	84,842	88,154
Return on capital employed (Adjusted EBITDA/Average capital employed)	29%	27%	12%

### 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 dollar, 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](http://www.sedar.com). 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 dollar 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, 2013 and 2012

## MANAGEMENT'S REPORT

March 7, 2014

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 CEO*

*"Kathy Demuth"*  
**Katherine L. Demuth**  
*Chief Financial Officer*

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of ZCL Composites Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ZCL Composites Inc., which comprise the consolidated balance sheets as at December 31, 2013, and 2012, and the consolidated statements of income, comprehensive income, and shareholders' equity and cash flows for the years ended December 31, 2013 and 2012, 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 auditor considers 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, 2013, and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada  
March 7, 2014

*Ernst & Young LLP*  
Chartered accountants

## Consolidated Financial Statements

### Consolidated Balance Sheets

As at

	December 31, 2013	December 31, 2012
(in thousands of dollars)	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	18,882	4,846
Accounts receivable <i>[note 21]</i>	25,083	28,469
Inventories <i>[note 5]</i>	23,810	22,657
Income taxes recoverable	1,379	841
Prepaid expenses	850	915
	70,004	57,728
Property, plant and equipment <i>[note 7]</i>	27,254	26,093
Intangible assets <i>[note 8]</i>	4,934	6,361
Goodwill <i>[note 25]</i>	31,547	29,671
Restricted cash	268	249
Other assets	308	424
<b>TOTAL ASSETS</b>	<b>134,315</b>	<b>120,526</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 21]</i>	14,671	17,274
Dividends payable <i>[note 14]</i>	896	580
Income taxes payable	73	1,467
Deferred revenue	3,779	3,409
Current portion of provisions <i>[note 10]</i>	1,391	1,993
Current portion of long term debt <i>[note 11]</i>	1,350	1,350
	22,160	26,073
Deferred tax liabilities <i>[note 17]</i>	4,075	4,597
Long term portion of provisions <i>[note 10]</i>	936	609
Long term debt <i>[note 11]</i>	2,386	3,412
<b>TOTAL LIABILITIES</b>	<b>29,557</b>	<b>34,691</b>
<b>Shareholders' equity</b>		
Share capital <i>[note 15]</i>	74,846	70,980
Contributed surplus <i>[note 16]</i>	2,301	2,609
Accumulated other comprehensive loss	(3,808)	(8,027)
Retained earnings	31,419	20,273
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>104,758</b>	<b>85,835</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>134,315</b>	<b>120,526</b>

See accompanying notes

On behalf of the Board:

Director

Director

## Consolidated Financial Statements

### Consolidated Statements of Income

For the years ended December 31,

(in thousands of dollars, except per share amounts)	2013 \$	2012 \$
<b>Revenue</b>	<b>161,704</b>	170,359
Manufacturing and selling costs <i>[note 6]</i>	<b>128,222</b>	140,440
Gross profit	<b>33,482</b>	29,919
General and administration	<b>8,552</b>	8,571
Foreign exchange (gain) loss	<b>(46)</b>	43
Depreciation and amortization <i>[notes 7 and 8]</i>	<b>3,991</b>	3,673
Finance expense <i>[note 20]</i>	<b>446</b>	770
Loss (gain) on disposal of property, plant and equipment	<b>106</b>	(246)
Impairment of property, plant and equipment <i>[note 7]</i>	<b>—</b>	182
Gain on redemption of preferred shares <i>[note 12]</i>	<b>—</b>	(670)
Other items <i>[note 12]</i>	<b>—</b>	(638)
	<b>13,049</b>	11,685
Income before income taxes	<b>20,433</b>	18,234
<b>Income tax expense (recovery) <i>[note 17]</i></b>		
Current	<b>6,741</b>	5,156
Deferred	<b>(693)</b>	(412)
	<b>6,048</b>	4,744
<b>Net income</b>	<b>14,385</b>	13,490
<b>Earnings per share <i>[note 18]</i></b>		
Basic	<b>\$0.49</b>	\$0.47
Diluted	<b>\$0.49</b>	\$0.46

See accompanying notes

## Consolidated Financial Statements

### Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of dollars)	2013 \$	2012 \$
Net income	14,385	13,490
Translation of foreign operations	4,219	(954)
Total items that will be reclassified subsequently to net income	4,219	(954)
<b>Comprehensive income</b>	<b>18,604</b>	<b>12,536</b>

### 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 \$
<b>Balance, December 31, 2012</b>	<b>29,035</b>	<b>70,980</b>	<b>2,609</b>	<b>—</b>	<b>(8,027)</b>	<b>20,273</b>	<b>85,835</b>
Share-based payments <i>[note 16]</i>	—	—	624	—	—	—	624
Shares issued on exercise of options <i>[notes 15 and 16]</i>	813	2,934	—	—	—	—	2,934
Reclassification of fair value of stock options previously expensed <i>[note 16]</i>	—	932	(932)	—	—	—	—
Translation of foreign operations	—	—	—	—	4,219	—	4,219
Dividends declared <i>[note 14]</i>	—	—	—	—	—	(3,239)	(3,239)
Net income	—	—	—	—	—	14,385	14,385
<b>Balance, December 31, 2013</b>	<b>29,848</b>	<b>74,846</b>	<b>2,301</b>	<b>—</b>	<b>(3,808)</b>	<b>31,419</b>	<b>104,758</b>
Balance, December 31, 2011	28,802	69,862	2,177	845	(7,073)	8,373	74,184
Share-based payments <i>[note 16]</i>	—	—	575	—	—	—	575
Shares issued on exercise of options <i>[notes 15 and 16]</i>	233	847	—	—	—	—	847
Reclassification of fair value of stock options previously expensed <i>[note 16]</i>	—	271	(271)	—	—	—	—
Redemption of preferred shares <i>[note 12]</i>	—	—	128	(845)	—	—	(717)
Translation of foreign operations	—	—	—	—	(954)	—	(954)
Dividends declared <i>[note 14]</i>	—	—	—	—	—	(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

See accompanying notes



## Consolidated Financial Statements

### Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of dollars)	2013 \$	2012 \$
<b>CASH FLOWS FROM OPERATIONS</b>		
Net income from operations	14,385	13,490
Add (deduct) items not affecting cash:		
Depreciation and amortization <i>[notes 7 and 8]</i>	3,991	3,673
Deferred tax recovery	(693)	(412)
Share-based compensation expense <i>[note 16]</i>	624	575
Loss (gain) on disposal of property, plant and equipment	106	(246)
Impairment of property, plant and equipment <i>[note 7]</i>	—	182
Gain on redemption of preferred shares <i>[note 12]</i>	—	(670)
Non-cash proceeds on settlement of claims <i>[note 12]</i>	—	(1,348)
Other	—	(92)
<b>Funds from operations</b>	<b>18,413</b>	<b>15,152</b>
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	4,931	(8,802)
(Increase) decrease in inventories	(24)	1,319
Decrease (increase) in prepaid expenses	95	(21)
(Decrease) increase in accounts payable, accrued liabilities and provisions	(3,780)	3,064
Increase (decrease) in deferred revenue	134	(1,857)
(Decrease) increase in income taxes payable	(1,877)	942
<b>Total changes in non-cash working capital</b>	<b>(521)</b>	<b>(5,355)</b>
<b>Cash flows from operations</b>	<b>17,892</b>	<b>9,797</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of common shares on the exercise of stock options <i>[notes 15 and 16]</i>	2,934	847
Dividends paid <i>[note 14]</i>	(2,923)	(1,010)
Advance on long term debt, net of financing charges	—	2,000
Repayment of long term debt	(1,350)	(3,376)
Redemption of preferred shares <i>[note 12]</i>	—	(2,075)
<b>Cash flows used in financing activities</b>	<b>(1,339)</b>	<b>(3,614)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment <i>[note 7]</i>	(3,010)	(2,982)
Disposal of property, plant and equipment	125	247
Purchase of intangible assets <i>[note 8]</i>	(80)	(75)
<b>Cash flows used in investing activities</b>	<b>(2,965)</b>	<b>(2,810)</b>
Foreign exchange gain (loss) on cash held in foreign currency	448	(234)
<b>Increase in cash and cash equivalents</b>	<b>14,036</b>	<b>3,139</b>
Cash and cash equivalents, beginning of the year	4,846	1,707
<b>Cash and cash equivalents, end of the year</b>	<b>18,882</b>	<b>4,846</b>

See accompanying notes

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 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, services 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 are reported in Canadian dollars which is the functional currency of the Company, ZCL Composites Inc.

#### *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, 2014.

#### *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 (“Parabeam”), Radigan Insurance Inc., ZCL International SRL, ZCL-Dualam Inc. (“ZCL Dualam”), C.P.F. Dualam (U.S.A.) Inc. (“CPF”), Troy Mfg. (Texas), Inc. (“Troy Texas”) 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 guaranteed investment certificates 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	20-30%
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 or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 25.

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.

## Notes to the Consolidated Financial Statements

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 amortization 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-patented 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.

### *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 for materials and workmanship, and for up to 30 years for corrosion, if the products are properly installed and used solely for storage of specified 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 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 subsidiary companies.

#### *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. Parabeam's functional currency is the euro and the functional currency of all other subsidiaries is the US dollar with the exception 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

## Notes to the Consolidated Financial Statements

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 with respect to 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 and other assets. These assets are measured initially at fair value on the consolidated balance sheets and subsequently they are carried at amortized cost using the effective interest method less any related impairment losses.

#### *Held to maturity investments:*

As at December 31, 2013 and 2012, the Company did not have any held to maturity investments on the consolidated balance sheets.

#### *Available for sale financial instruments:*

As at December 31, 2013 and 2012, the Company did not have any available for sale financial instruments on the consolidated balance sheets.

#### *Derivatives designated as hedging instruments:*

As at December 31, 2013 and 2012, the Company did not have any derivatives designated as hedging instruments on the consolidated balance sheets.

## Notes to the Consolidated Financial Statements

### *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.

### *Loans and borrowings:*

The Company's loans and borrowings consist of accounts payable and long term debt. These liabilities are measured initially at fair value plus transaction costs on the consolidated balance sheets and subsequently 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 recognized amounts and there is an intention to settle on a net basis, to realize 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 and employees of 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 statements 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 statements of income in that period.

### **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 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.

All deferred tax 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 fulfillment 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 recognized 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 consolidated income statements when they are incurred.

## **4. NEW ACCOUNTING STANDARDS**

Certain new standards, interpretations and amendments have been released by the IASB and were effective for annual periods beginning on or after January 1, 2013. The Company has adopted the following new standards and interpretations in these consolidated financial statements:

### ***IFRS 10: "Consolidated Financial Statements"***

This standard 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 in the Company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. The adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

### ***IFRS 12: "Disclosure of Interests with Other Entities"***

The standard 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 adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

### ***IFRS 13: "Fair Value Measurement"***

This standard 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. The adoption of this standard did not impact the current or prior periods presented in these consolidated financial statements.

### **Standards issued but not yet effective:**

#### ***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 recognized financial instruments that are set off in accordance with IAS 32: "Financial Instruments: Presentation." The disclosures also apply to recognized financial



## Notes to the Consolidated Financial Statements

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 are effective for periods beginning on or after January 1, 2014 and the adoption of these amendments is not expected to impact the Company's financial statements.

Amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off." These amendments are effective for periods beginning on or after January 1, 2014 and the adoption of these amendments is not expected to impact the Company's financial statements.

### 5. INVENTORIES

As at	December 31,	December 31,
(in thousands of dollars)	2013	2012
	\$	\$
Raw materials	9,989	9,068
Work in progress	3,107	4,048
Finished goods	10,714	9,541
	<b>23,810</b>	<b>22,657</b>

During the year ended December 31, 2013 there was a write-down of \$56,000 (December 31, 2012 - \$170,000) of inventory to its net realizable value.

### 6. MANUFACTURING AND SELLING COSTS

For the years ended December 31,	2013	2012
(in thousands of dollars)	\$	\$
Raw materials and consumables used	57,849	58,150
Labour costs	29,753	31,152
Other costs	40,852	49,302
Net change in inventories of finished goods and work in progress	(232)	1,836
	<b>128,222</b>	<b>140,440</b>

## Notes to the Consolidated Financial Statements

### 7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land \$	Buildings \$	Leaseholds \$	Manufacturing Equip. \$	Office Equip. \$	Auto Equip. \$	Total \$
<b>Cost</b>							
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
Additions	—	361	312	1,980	290	67	3,010
Disposals	—	—	—	(204)	(465)	—	(669)
Foreign exchange	4	113	150	783	62	34	1,146
<b>As at December 31, 2013</b>	<b>6,479</b>	<b>7,832</b>	<b>4,164</b>	<b>24,122</b>	<b>3,371</b>	<b>460</b>	<b>46,428</b>
<b>Accumulated Depreciation</b>							
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
Depreciation	—	212	399	1,214	359	88	2,272
Disposals	—	—	—	(75)	(361)	—	(436)
Foreign exchange	—	20	69	334	53	14	490
<b>As at December 31, 2013</b>	<b>—</b>	<b>2,255</b>	<b>2,214</b>	<b>11,749</b>	<b>2,784</b>	<b>172</b>	<b>19,174</b>
<b>Carrying Amount</b>							
As at December 31, 2012	6,475	5,335	1,956	11,287	751	289	26,093
<b>As at December 31, 2013</b>	<b>6,479</b>	<b>5,577</b>	<b>1,950</b>	<b>12,373</b>	<b>587</b>	<b>288</b>	<b>27,254</b>

Capital work in progress of \$306,000 (December 31, 2012 - \$321,000) is included above and not subject to depreciation. Included in this figure is \$54,000 for manufacturing equipment and \$252,000 in buildings (improvements).

The \$182,000 impairment loss recognized during the year ended December 31, 2012 related to the carrying value of an internally developed mold for the Underground operating segment.

## Notes to the Consolidated Financial Statements

### 8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships \$	Brands \$	Internally Developed ERP Software \$	Other \$	Total \$
<b>Cost</b>					
As at December 31, 2011	6,549	3,593	3,277	4,613	18,032
Additions	—	—	—	75	75
Disposals	—	—	—	—	—
Foreign exchange	(136)	(67)	(38)	(22)	(263)
As at December 31, 2012	6,413	3,526	3,239	4,666	17,844
Additions	—	—	80	—	80
Disposals	—	—	—	—	—
Foreign exchange	433	213	122	71	839
<b>As at December 31, 2013</b>	<b>6,846</b>	<b>3,739</b>	<b>3,441</b>	<b>4,737</b>	<b>18,763</b>
<b>Accumulated Amortization</b>					
As at December 31, 2011	4,912	1,757	571	2,763	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	3,062	11,483
Amortization	608	399	356	356	1,719
Foreign exchange	391	136	43	57	627
<b>As at December 31, 2013</b>	<b>6,442</b>	<b>2,649</b>	<b>1,263</b>	<b>3,475</b>	<b>13,829</b>
<b>Carrying Amount</b>					
As at December 31, 2012	970	1,412	2,375	1,604	6,361
<b>As at December 31, 2013</b>	<b>404</b>	<b>1,090</b>	<b>2,178</b>	<b>1,262</b>	<b>4,934</b>

Other intangible assets include licenses, patents, air permits, non-patented technology and certification costs.

### 9. BANK INDEBTEDNESS – OPERATING CREDIT FACILITY

The Company's operating credit facility was not in use at December 31, 2013 and December 31, 2012. 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, 2015 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 75 basis points. The rate of interest charged on the operating credit facility for US dollar balances is US prime plus 75 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, 2013, the Company was in compliance with all restrictive covenants relating to the operating credit facility.

## Notes to the Consolidated Financial Statements

### 10. PROVISIONS AND CONTINGENCIES

#### a) Provisions

(in thousands of dollars)	Warranty \$	Self-insured liabilities \$	Other \$	Total \$
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
Amounts used against the provision	(390)	(45)	(811)	(1,246)
Additional provision	380	315	162	857
Foreign exchange	33	57	24	114
<b>As at December 31, 2013</b>	<b>939</b>	<b>936</b>	<b>452</b>	<b>2,327</b>

Of the \$2,327,000 (2012 - \$2,602,000) in provisions described above, the Company expects \$1,391,000 (2012- \$1,993,000) to settle within 12 months of the balance sheet date, the remaining \$936,000 (2012 - \$609,000) 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.

## Notes to the Consolidated Financial Statements

### 11. LONG TERM DEBT

As at	December 31, 2013	December 31, 2012
(in thousands of dollars)	\$	\$
Term loan	3,736	4,762
Total long term debt	3,736	4,762
Less current portion	1,350	1,350
	<b>2,386</b>	<b>3,412</b>

Excluding financing costs, the principal balance of the term loan as at December 31, 2013 is \$3,521,000 USD (December 31, 2012 – \$4,818,000 USD) which is a reasonable estimate of its fair value.

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, 2015. The interest charged on the loan is the US dollar based 30 day LIBOR rate plus 225 basis points (effective rate of 2.41% as at December 31, 2013). 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 term loan is secured through a collateral mortgage over three properties owned by the Company. The carrying amount of these three properties as at December 31, 2013 is \$8,690,000.

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 21.

### 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	<b>\$5,173,000</b>

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.

## Notes to the Consolidated Financial Statements

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 was 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)	\$
2014	2,449
2015	1,490
2016	1,157
2017	756
2018	336
Thereafter	—
	<b>6,188</b>

#### Other Contractual Obligations

The Company has provided a letter of credit in the amount of \$1.0 million (2012 - \$1.0 million) to secure a line of credit for the same amount for the US operations. The Company has also provided two letters of credit for a total of \$0.7 million (2012 - \$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, 2013 the issued performance letters of credit totalled \$1.4 million (2012 - \$1.5 million).

### 14. DIVIDENDS

Dividends declared for years ended December 31,  
(in thousands of dollars, except per share amounts)

2013				2012			
Declared	Per share	Paid to shareholders	Total \$	Declared	Per share	Paid to shareholders	Total \$
March 7, 2013	\$0.025	April 15, 2013	729	March 7, 2012	0.010	April 2, 2012	288
May 3, 2013	\$0.025	July 15, 2013	729	May 8, 2012	0.010	July 16, 2012	288
August 8, 2013	\$0.030	October 15, 2013	885	August 3, 2012	0.015	October 15, 2012	434
November 7, 2013	\$0.030	January 15, 2014	896	November 8, 2012	0.020	January 15, 2013	580
	<b>\$0.110</b>		<b>3,239</b>		0.055		1,590

For the year ended December 31, 2013,

	2013 \$	2012 \$
Payable, beginning of period	580	—
Declared	3,239	1,590
Paid in cash	(2,923)	(1,010)
Payable, end of period	896	580

On March 7, 2014, the Company's Board of Directors declared a dividend of \$0.035 per common share to be paid on April 15, 2014 to the shareholders of record as of March 31, 2014.

**15. SHARE CAPITAL**

**Authorized**

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

**Issued and outstanding**

During the year ended December 31, 2013, the Company issued 812,917 (2012 – 232,983) common shares at an average rate of \$3.61 per share for options exercised resulting in cash proceeds to the Company of \$2,934,000 (2012 - \$847,000). As at December 31, 2013, the Company had 29,847,919 common shares outstanding (December 31, 2012 – 29,035,002).

**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. 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, 2013, the Company has 1,929,261 (2012 – 2,424,349) options outstanding, which expire on dates between January 2015 and December 2018. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2013, 796,360 (2012 – 959,269) 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,

	2013		2012	
	Stock options #	Weighted average exercise price \$	Stock options #	Weighted average exercise price \$
Balance, as at January 1	2,424,349	3.74	2,207,498	3.44
Granted	444,000	7.09	597,000	4.72
Exercised	(812,917)	3.61	(232,983)	3.63
Forfeited	(126,171)	3.72	(147,166)	3.54
Expired	—	—	—	—
Balance, as at December 31	1,929,261	4.56	2,424,349	3.74

## Notes to the Consolidated Financial Statements

2013					
Exercise Price \$	Options Outstanding			Options Exercisable	
	Stock options #	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life in Years #	Stock options #	Weighted Average Exercise Price \$
3.87	202,000	3.87	1.02	202,000	3.87
4.09	17,500	4.09	1.19	17,500	4.09
3.05	304,346	3.05	2.19	160,984	3.05
3.23	2,501	3.23	2.40	—	3.23
3.15	424,175	3.15	2.93	250,161	3.15
4.72	534,739	4.72	3.95	165,715	4.72
7.09	444,000	7.09	4.93	—	—
<b>3.05 – 7.09</b>	<b>1,929,261</b>	<b>4.56</b>	<b>3.34</b>	<b>796,360</b>	<b>3.66</b>

  

2012					
Exercise Price \$	Options Outstanding			Options Exercisable	
	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	—	—
<b>3.05 – 4.72</b>	<b>2,424,349</b>	<b>3.74</b>	<b>3.24</b>	<b>959,269</b>	<b>3.58</b>

During the year ended December 31, 2013, 444,000 options were granted at an exercise price of \$7.09. 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, 2013, 812,917 stock options (2012 – 232,983) were exercised with a weighted average exercise price of \$3.61 (2012 – \$3.63) resulting in cash proceeds to the Company of \$2,934,000 (2012 – \$847,000). Compensation expense previously included in contributed surplus of \$932,000 (2012 – \$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 and directors. 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, 2013, share-based compensation expense of \$624,000 (2012 - \$575,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income.



## Notes to the Consolidated Financial Statements

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 \$1.80 (2012 – \$1.37).

	<b>2013</b>	<b>2012</b>
Risk-free interest rate (%)	1.4	1.2
Expected hold period to exercise (years)	3.9	3.8
Volatility in the price of the Company's shares (%)	35.7	41.5
Forfeiture rate (%)	5.0	5.0
Dividend yield (%)	1.7	1.6

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.

### 17. INCOME TAXES

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

(in thousands of dollars)	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Net income before tax	<b>20,433</b>	18,234
Statutory federal and provincial taxes at 25.51% (2012 – 25.47%)	<b>5,213</b>	4,644
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	<b>1,426</b>	663
Effect of permanent differences	<b>(765)</b>	(624)
Non-taxable foreign income, other tax exempt income and other items	<b>174</b>	61
At the effective income tax rate of 30% (2012 – 26%)	<b>6,048</b>	4,744

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

(in thousands of dollars)	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of the year	<b>4,597</b>	5,068
Tax recovery during the year recognized in net income	<b>(693)</b>	(412)
Tax expense (recovery) during the year recognized in other comprehensive loss	<b>171</b>	(59)
At the effective income tax rate of 30% (2012 – 26%)	<b>4,075</b>	4,597

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

(in thousands of dollars)	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Property, plant and equipment	<b>3,186</b>	3,060
Land	<b>343</b>	343
Intangible assets	<b>893</b>	1,344
Inventories	<b>360</b>	565
Refundable insurance premiums	<b>102</b>	110
Non-deductible reserves and accrued liabilities	<b>(805)</b>	(871)
Other	<b>(4)</b>	46
	<b>4,075</b>	4,597

The Company had utilized all loss carry forwards for both Canadian and US tax purposes during the year ended December 31, 2012.

## Notes to the Consolidated Financial Statements

### 18. 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)	2013 \$	2012 \$
Net income	14,385	13,490
Denominator (in thousands)	2013 #	2012 #
Weighted average shares outstanding - basic	29,308	28,860
Effect of dilutive securities:		
Stock options	399	265
Weighted average shares outstanding - diluted	29,707	29,125

### 19. RELATED PARTY TRANSACTIONS

#### a) Transactions in the normal course of operations:

Certain manufacturing components purchased for \$27,000 (2012 - \$31,000) for the year ended December 31, 2013, included in manufacturing and selling costs in the consolidated statements of income or inventories, were provided by a corporation whose Executive Chairman 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, 2013 included \$1,000 (December 31, 2012 - \$3,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

#### b) Transactions with key management and directors:

For the year ended December 31,

(in thousands of dollars)	2013 \$	2012 \$
Salaries, benefits and director fees	1,538	1,129
Share-based payments	252	210
Total	1,790	1,339

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, 2013 and 2012. Share-based payments are the amount of expense recognized in the consolidated statements of income relating to the identified key management and directors.

### 20. FINANCE EXPENSE

For the year ended December 31,

(in thousands of dollars)	2013 \$	2012 \$
Short term interest, net of interest income	334	573
Interest, long term obligations	112	197
	446	770

### 21. 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, 2013 and 2012.

#### 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 on 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, 2013 was prime plus 75 basis points, 3.75% (December 31, 2012 - 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 at December 31, 2013 was US LIBOR rate plus 225 basis points, 2.41% (December 31, 2012 – US LIBOR rate plus 250 basis points, 2.71%), 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, 2013 would have a minimal impact on the net income for the year ended December 31, 2013.

#### 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 on the Company. During the year ended December 31, 2013, 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, 2013. 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").

## Notes to the Consolidated Financial Statements

Balance sheet exposure as at December 31, 2013,

(in thousands of US dollars)	Foreign Operations \$	Domestic Operations \$	Total \$
Cash and cash equivalents	9,347	168	9,515
Accounts receivable	16,252	1,536	17,788
Restricted cash	250	—	250
Accounts payable and accrued liabilities	(10,484)	(911)	(11,395)
Trade balances with self-sustaining foreign entities	—	464	464
Long term debt	—	(3,521)	(3,521)
<b>Net balance sheet exposure</b>	<b>15,365</b>	<b>(2,264)</b>	<b>13,101</b>

Operating exposure for the year ended December 31, 2013,

(in thousands of US dollars)	\$
Sales	109,069
Operating expenses	94,588
<b>Net operating exposure</b>	<b>14,481</b>

The weighted average US to Canadian dollar translation rate was 1.03 for the year ended December 31, 2013. The translation rate as at December 31, 2013 was 1.07.

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

For the year ended December 31, 2013,

(in thousands of US dollars)	\$
Net balance sheet exposure of other operations	(290)
Net operating exposure of foreign operations	1,853
<b>Change in net income</b>	<b>1,563</b>

Other comprehensive income would have changed \$1,967,000 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, 2013, one customer exceeded 10% of the consolidated trade accounts receivable balance. The balance of \$3,927,000 USD was being disputed by the customer and it was settled for \$3,527,000 USD subsequent to the year end. The difference of \$400,000 USD was included in the allowance for doubtful accounts at year end. Losses under trade accounts receivable have not historically been significant. The creditworthiness of new and existing customers is subject to review by

## Notes to the Consolidated Financial Statements

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 \$24,723,000 as at December 31, 2013 (December 31, 2012 - \$27,338,000). On a geographic basis as at December 31, 2013, approximately 22% (December 31, 2012 - 48%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 78% (December 31, 2012 - 52%) was due from US customers. The change in geographic accounts receivable is mainly due to the disputed significant receivable of \$3,927,000 that was settled after the year ending December 31, 2013.

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,

	<b>2013</b>	<b>2012</b>
Current	<b>45%</b>	60%
Past due 1 to 30 days	<b>24%</b>	27%
Past due 31 to 60 days	<b>19%</b>	6%
Past due 61 to 90 days	<b>3%</b>	2%
Past due greater than 90 days	<b>9%</b>	5%
	<b>100%</b>	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. The increase in overall aging of the accounts receivable relative to the year ended December 31, 2012 is mainly due to the significant \$3,927,000 USD disputed receivable that was settled after the year ending December 31, 2013.

Included in the accounts receivable balance are balances not considered trade receivables of \$360,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2012 - \$1,131,000).

The Company had recorded an allowance for doubtful accounts of \$542,000 as at December 31, 2013 (December 31, 2012 - \$275,000). The allowance is an estimate of the December 31, 2013 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of \$462,000 (2012 - \$110,000), offset by payments of \$2,000 (2012 - \$110,000), write offs of \$209,000 (2012 - \$76,000) and a translation adjustment of \$16,000 (2012 - \$4,000) for the year ended December 31, 2013.

### **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.

## Notes to the Consolidated Financial Statements

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 \$	2014 \$	2015 \$	2016 \$	Thereafter \$
Accounts payable, accrued liabilities and provisions	16,998	15,947	1,051	—	—
Dividends payable	896	896	—	—	—
Long term debt	3,736	1,350	2,386	—	—
<b>Total</b>	<b>21,630</b>	<b>18,193</b>	<b>3,437</b>	<b>—</b>	<b>—</b>

## 22. STATEMENTS OF CASH FLOWS

For the year ended December 31,

(in thousands of dollars)	2013 \$	2012 \$
Net interest paid	452	823
Income taxes paid	8,922	4,616
	<b>9,374</b>	<b>5,439</b>

## 23. 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)	2013 \$	2012 \$
Current portion of long term debt <i>[note 11]</i>	1,350	1,350
Long term debt <i>[note 11]</i>	2,386	3,412
<b>Total long term debt</b>	<b>3,736</b>	<b>4,762</b>
Share capital	74,846	70,980
Contributed surplus	2,301	2,609
Retained earnings	31,419	20,273
<b>Adjusted shareholders' equity</b>	<b>108,566</b>	<b>93,862</b>
<b>Adjusted capital employed</b>	<b>112,302</b>	<b>98,624</b>

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

## Notes to the Consolidated Financial Statements

capital employed when significant changes in these factors are expected. Management considers the ratio of long term debt to adjusted capital employed of 3% as at December 31, 2013 (December 31, 2012 – 5%) 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, 2013 Actual	Dec 31, 2013 Required	Dec 31, 2012 Actual	Dec 31, 2012 Required
Minimum equity value	\$105 million	>\$50 million	\$86million	>\$50 million
Debt to tangible net worth	0.06	<2.0	0.10	<2.0
Fixed charge coverage ratio	5.8	>1.5	5.07	>1.5
Current ratio	3.03	>1.25	2.16	>1.25

On an ongoing basis, management expects to continue meeting all financial covenants under its current credit facility.

## 24. 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	
	2013	2012	2013	2012	2013	2012
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Revenue	121,692	114,442	40,012	55,917	161,704	170,359
Manufacturing and selling costs	96,241	94,019	31,981	46,421	128,222	140,440
Gross profit	25,451	20,423	8,031	9,496	33,482	29,919

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.

## Notes to the Consolidated Financial Statements

	Inventories		Property, plant and equipment	Intangible assets and goodwill		
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
As at (in thousands of dollars)	\$	\$	\$	\$	\$	\$
Underground	<b>20,874</b>	18,908	<b>21,197</b>	20,265	<b>32,735</b>	32,092
Aboveground	<b>2,936</b>	3,749	<b>6,057</b>	5,828	<b>3,746</b>	3,940
<b>Total</b>	<b>23,810</b>	22,657	<b>27,254</b>	26,093	<b>36,481</b>	36,032

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 and distributors in Canada and provides products for distributors and retail oil and gas companies in the US. For the year ended December 31, 2013 and 2012, no single customer exceeded 10% of total revenue.

### c) Information about geographic areas

For the years ended December 31,

	Revenues	
	2013	2012
(in thousands of dollars)	\$	\$
Canada	<b>56,454</b>	79,317
United States	<b>102,135</b>	87,865
International	<b>3,115</b>	3,177
	<b>161,704</b>	170,359

	Total assets		Property, plant and equipment, intangible assets and goodwill	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
As at (in thousands of dollars)	\$	\$	\$	\$
Canada	<b>54,893</b>	54,510	<b>24,825</b>	24,981
United States	<b>76,562</b>	63,233	<b>37,803</b>	35,983
International	<b>2,860</b>	2,783	<b>1,107</b>	1,161
	<b>134,315</b>	120,526	<b>63,735</b>	62,125



**25. IMPAIRMENT TESTING OF GOODWILL**

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

- Underground Canada
- Underground US
- Aboveground

**Carrying amount of goodwill allocated to each CGU**

	Underground Canada		Underground US		Aboveground	
	Oct 1, 2013	Oct 1, 2012	Oct 1, 2013	Oct 1, 2012	Oct 1, 2013	Oct 1, 2012
As at (in thousands of dollars)	\$	\$	\$	\$	\$	\$
Goodwill	1,377	1,377	26,536	25,319	2,641	2,641

The Company performed its annual goodwill impairment test as at October 1, 2013. 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, 2013, 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, 2013, 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, 2013 figures above may differ from the October 1, 2012 carrying amount. There has been no impairment of goodwill recognized in the 2013 or 2012 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 is 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 on 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 (12.5% to 13.3%), Underground US (14.5% to 15.3%) and Aboveground (24.3% to 25.1%).

*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 US 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 and variable costs. 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 11% in the worst case scenario before a deficiency would be created. For the Underground US CGU, the specific risk premium would need to increase 80% and with the Aboveground CGU, the specific risk premium would need to increase 43% 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 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 95% of our current expectations; the Underground US CGU would have to fall to 77%; and the gross profit for the Aboveground CGU would have to fall to 82% of its current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2013, the total recoverable amount of the Company's CGUs exceeded their carrying amounts.

## **26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company holds financial instruments consisting of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and long term debt.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair value due to their short term nature.

The carrying value of long term debt approximates its fair value as changes in interest rates are not expected to significantly impact the value of the loan. In addition, the interest rates are the market rates at each reporting period.

## CORPORATE INFORMATION

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### **Board of Directors**

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

### **Annual General Meeting**

1:30 p.m. on Friday, May 9, 2014  
at The Edmonton Hotel & Convention Centre  
in the Sierra Room  
4520 – 76 Ave, NW  
Edmonton, Alberta  
Canada T6B 0A5

### **Corporate Office**

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

### **Common Shares Outstanding**

As of March 7, 2014  
Total outstanding: 29,897,784

### **Investor Relations**

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

### **Transfer Agent & Registrar**

Valiant Trust Company  
3000, 10303 Jasper Avenue  
Edmonton, Alberta  
Canada T2J 3X6

### **Auditors**

Ernst & Young LLP  
2200 Telus House, South Tower  
10020 – 100 Street  
Edmonton, Alberta  
Canada T5J 0N3

### **General Counsel**

Bennett Jones LLP  
3200 Telus House, South Tower  
10020 – 100 Street  
Edmonton, Alberta  
Canada T5J 0N3

### **Stock Listing and Share Symbol**

Toronto Stock Exchange: ZCL



1420 Parsons Road SW | Edmonton | Alberta | Canada | T6X 1M5  
Tel 780.466.6648 Fax 780.466.6126 Toll Free 1.800.661.8265 Web [www.zcl.com](http://www.zcl.com)