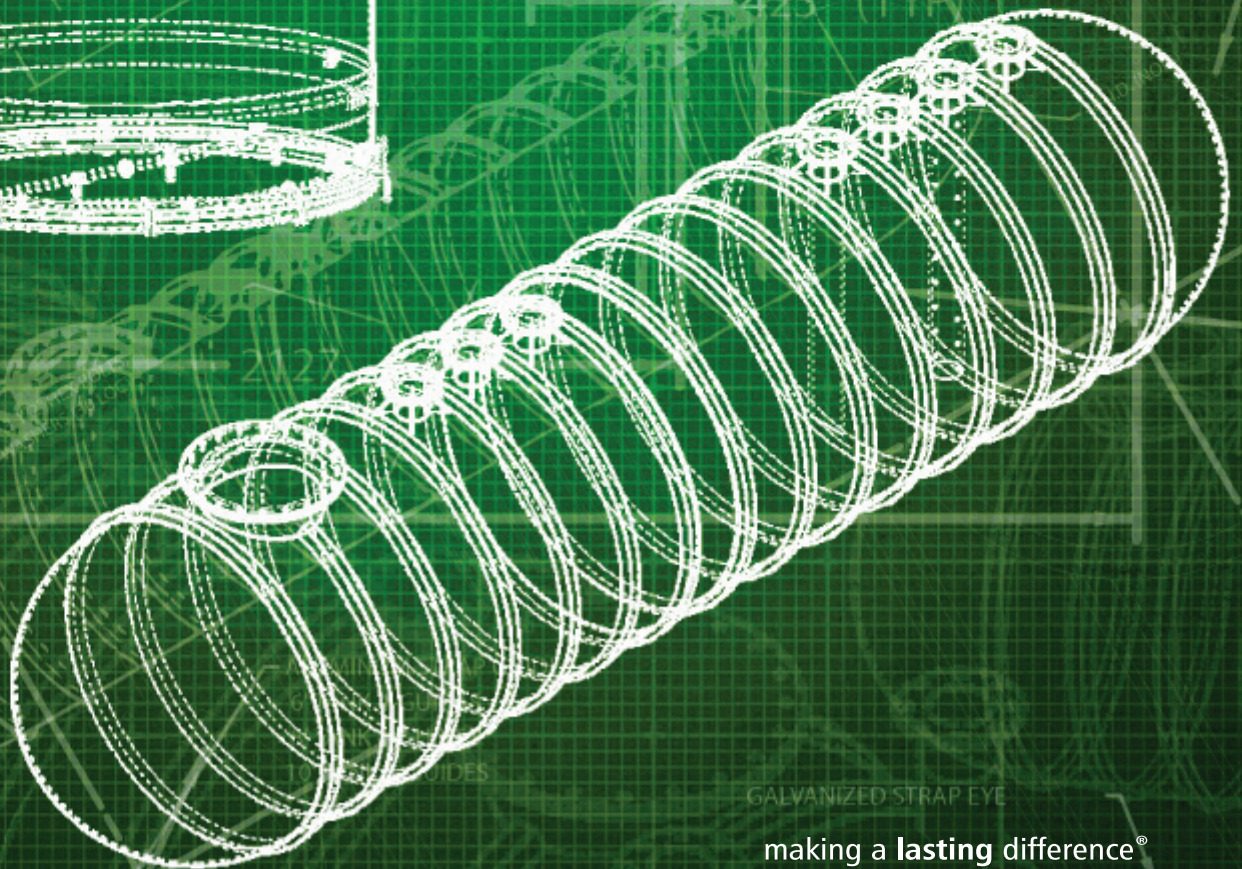
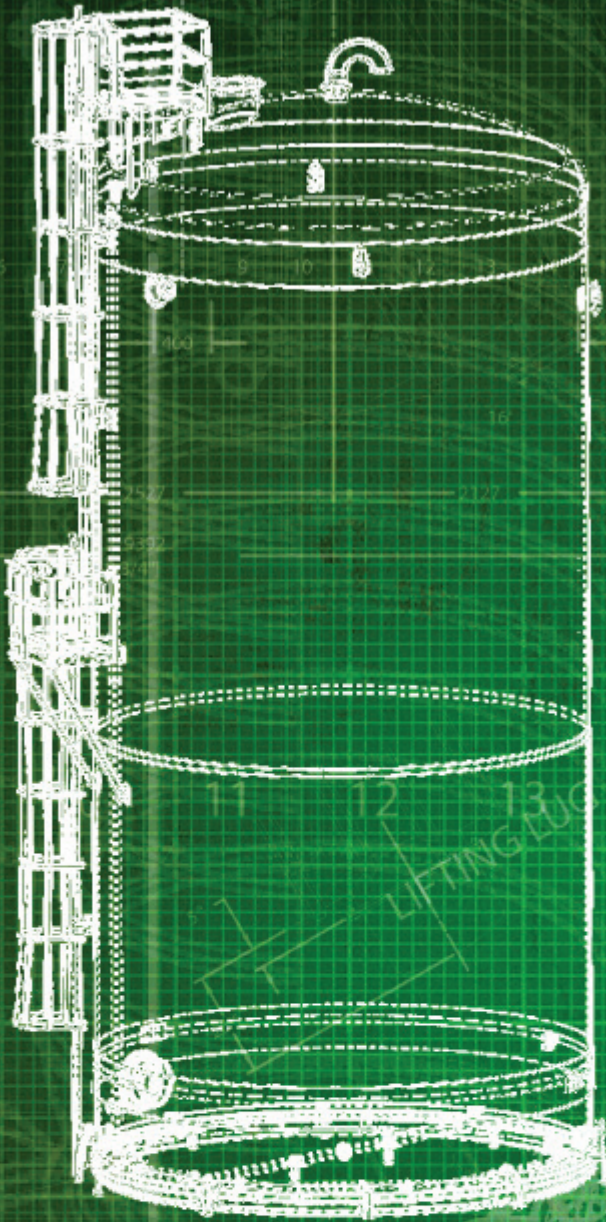


ZCL®

COMPOSITES INC.

Annual Report

2014



making a lasting difference®

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Message to Shareholders

I view 2014 as a year of achievement for ZCL. We set annual records with:

- Revenue of \$170.8 million (a 6% increase over 2013)
- Net income of \$16.3 million (a 13% increase over 2013)
- Earnings per share of \$0.54 (a 10% increase over 2013)
- EBITDA of \$27.1 million (a 6% increase over 2013)

Our balance sheet continues to be strong with a net cash position of \$25.8 million and working capital of \$62.6 million. We also delivered a return on capital employed of 29%. Even with these achievements, we remain focused on continuous improvement in our operations group to lower our costs.

Looking ahead, certain of our customers have expressed some uncertainty given the recent dramatic decline in crude oil prices, and in the short term this might lead to indecision and inactivity. This is already reflected in our current backlog and may lead to a weaker first quarter of 2015 compared with a year earlier. However, we have both a diverse range of product offerings limiting our upstream energy markets exposure to 10 to 15% of our overall revenue, and a strong financial position. The combination of these factors should allow us to weather any near-term uncertainties and also capitalize on opportunities arising from the current environment. Moreover, while exchange rates are hard to predict, if the current rate of approximately \$1.25 Canadian for a U.S. dollar were to prevail for the year, our 2015 results would benefit compared with 2014, when our average Canadian-to-U.S. exchange rate was approximately \$1.10.

I would like to review each of our product groups with the backdrop of the lower energy price environment expected throughout 2015.

The Petroleum Products group of our Underground operating segment, which has three sub-markets, should deliver continued moderate growth.

- Downstream Petroleum (retail), which is both the largest sub-market of this segment and ZCL's largest overall revenue source, benefits from declining oil and hence gasoline prices, as retail margins expand and cash flows increase to support new construction and tank upgrades and replacements.
- Upstream Petroleum (exploration and production), will likely experience a negative impact as cuts in capital spending programs by our customers in this area have already been announced and will most likely continue until energy prices recover. However, any negative impact on ZCL overall should be reduced as the Upstream Petroleum sub-market represents only 2% of our annual revenues.
- Midstream Petroleum (underground tanks for pipeline systems), which also represents approximately 2% of our revenue base, will likely have no negative impact in 2015. Takeaway and delivery system expansions for this year are already well underway and capital is committed to these projects.

For our Water Products group, also in the Underground operating segment, we expect to benefit from the increased economic growth that many are forecasting will result from lower energy prices, particularly in the US. As economic activity increases, moderate growth in construction activity should continue to create increased demand for our Water Products group offerings.

For our Aboveground segment, lower energy prices will likely have a negative impact on the Oil Sands markets and a positive impact on the Industrial Corrosion sub-markets. To minimize the impact of

potential lower revenues from the Oil Sands, we are redirecting our sales and marketing efforts into other markets in Western Canada, including industrial chemicals, pulp and paper, mining, and agriculture.

- Oil Sands sales will be negatively impacted as planned capacity expansion projects are delayed or deferred. While this may materially impact 2015 Oil Sands customer revenue, the overall impact on ZCL should be diminished, as the Oil Sands historically accounts for less than 10% of our total annual revenues.
- Industrial Corrosion, which makes up the majority of our Aboveground segment revenues, should benefit as both the industrial chemical markets and the power generation markets will see lower operating costs and lower raw material costs, providing increased profits and cash flow for our customers to fund expansion projects. Industrial chemicals and power generation are two of our major areas of emphasis within Industrial Corrosion.

ZCL has successfully navigated challenging periods in the past, and we are well positioned to face current uncertainties. We are fortunate to have a great group of dedicated employees who will work hard to ensure that ZCL prospers, and on behalf of the executive team and our Board, I want to thank our employees for their contributions in 2014. I would also like to express my appreciation to our shareholders, customers, and other ZCL stakeholders for their support. We look forward to our next communication in early May when we report our first quarter 2015 results, as well as seeing many of you at our upcoming Annual General and Special Meeting of Shareholders on May 8, 2015 in Edmonton.

Sincerely,

Ronald M. Bachmeier
President & CEO

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, 2014, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2014. The statements are available on SEDAR at www.sedar.com or the Company's website at www.zcl.com.

The Company's audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

Forward-Looking Statements

This MD&A contains forward-looking information based on certain expectations, projections and assumptions. This information is subject to a number of risks and

uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For additional information refer to the "Advisory Regarding Forward-Looking Statements" section later in this MD&A.

Non-IFRS Measures

The Company uses both IFRS and non-IFRS measures to make strategic decisions and to set targets. Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, return on capital employed, 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 5, 2015.

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 downstream retail and commercial markets in both Canada and the US. The Company is also a provider of midstream petroleum tanks for pipelines as well as upstream petroleum tanks for the oil and gas exploration and production markets. The vast majority of tanks supplied to these markets are double-wall tanks, with single-wall and triple-wall models also available. In addition, ZCL operates internationally through technology licensing agreements.

As an alternative to the replacement of underground storage tanks, ZCL also provides 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 lightweight, 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 detention systems.

Aboveground Fluid Containment

Corrosion Products

ZCL manufactures custom designed and engineered aboveground FRP tanks, piping and related products and accessories for industrial projects where corrosion and abrasion resistance is 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, agriculture, mining and Oil Sands industries.

OVERALL PERFORMANCE & OUTLOOK

Overall, 2014 was a year of achievement for ZCL. We posted records for revenue of \$170.8 million (a 6% increase over 2013), net income of \$16.3 million (a 13% increase over 2013), adjusted EBITDA of \$27.1 million (a 6% increase over 2013), and fully diluted earnings per share of \$0.54 (a 10% increase over 2013). In addition, our balance sheet continues to be strong with working capital of \$62.6 million and a net cash balance position of 25.8 million. Return on capital employed remained strong at 29%.

Financial Results

Revenue

Revenue for the year ended December 31, 2014 was a record \$170.8 million, up \$9.1 million or 6% from \$161.7 million for the year ended December 31, 2013. The Underground operating segment grew 14% and both Petroleum Products and Water Products achieved record annual revenues. The Aboveground operating segment revenue was down 21% from 2013.

Gross Profit

Gross profit for the year ended December 31, 2014 was \$34.5 million, up \$1.0 million or 3% from \$33.5 million a year earlier. Gross margin was 20% of revenue for 2014, down slightly from 21% a year earlier, with the decrease attributable to the Aboveground operating segment.

Net Income

Net income for the year ended December 31, 2014 was \$16.3 million, up \$1.9 million or 13% from \$14.4 million a year earlier. Net income per diluted share for 2014 was \$0.54, up \$0.05 or 10% from \$0.49 per diluted share a year earlier. Net income included a foreign exchange gain of \$1.0 million that arose on the translation of US dollar assets and liabilities held in the Canadian legal entities.

Net Cash

As at December 31, 2014, ZCL had a net cash and cash equivalents ("net cash") balance of \$25.8 million compared to \$12.5 million as at September 30, 2014 and \$15.1 million as at December 31, 2013.

Dividends

Given our financial strength and ability to generate cash from operations, the Board declared a 13% increase in our quarterly dividend to \$0.045 per share for the fourth quarter of 2014, up from \$0.04 per share previously. The dividend will be paid on April 15, 2015, to the shareholders of record as of March 31, 2015.

Management's Discussion and Analysis

Backlog

| (\$millions) | Underground | Aboveground | Dec 31 |
|--------------|-------------|-------------|-------------|
| 2014 | 21.4 | 9.6 | 31.0 |
| 2013 | 29.4 | 9.5 | 38.9 |
| % change | (27%) | 1% | (20%) |

As of December 31, 2014, backlog was \$31.0 million, down \$7.9 million or 20% from \$38.9 million a year earlier. The overall decrease primarily resulted from a reduction in the Underground backlog of \$8.0 million, which was partially offset by a small increase in Aboveground backlog.

In the Aboveground operating segment, backlog from our Oil Sands customers was down \$2.3 million, compared to December 31, 2013. This reduction was more than offset by an increase in backlog from our Industrial Corrosion customers of \$2.5 million.

In the Underground operating segment, the Canadian operations backlog was the primary reason for the year over year reduction. Canadian backlog was down \$7.6 million as compared to December 31, 2013. In the fourth quarter of 2013, the Canadian sales group had a larger number of orders through our pre-order program than what was in place in the fourth quarter of 2014. We believe the lower backlog reflects a combination of temporary customer indecision due to the oil price drop and an acceleration of product sales to certain customers in the fourth quarter of 2014 that otherwise would have been recorded as backlog at year end. Our Canadian sales team is currently focused on obtaining pre-orders for the first quarter of 2015. After achieving record 2014 revenues, the US Underground backlog was down 2% year over year, including a \$1.5 million positive impact due to foreign exchange conversion of US dollar backlog to Canadian dollars for reporting purposes. Overall, Petroleum Products backlog was down \$7.1 million or 29% from the same period a year earlier. Water Products backlog was down \$1.0 million or 21%, compared to a year earlier.

Total backlog of \$31.0 million decreased by \$14.8 million or 32%, over the \$45.8 million backlog as at September 30, 2014. The decrease was attributable to both the Underground and Aboveground operating segments. In Underground, Water Products backlog decreased by 21% from September 2014. The Petroleum Products group backlog decreased by 35% over September 2014, due to in part to the traditional seasonality of the Underground business, but also due to the very strong revenue achieved in the fourth quarter of 2014.

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.

2015 Outlook

As we enter 2015, we expect that we may initially see lower levels of activity at ZCL due to the uncertainty in the energy markets as a result of the recent dramatic declines in energy prices. Certain of our customers have expressed some uncertainty and in the short term this might lead to indecision and inactivity. This is already reflected in our current backlog and may lead to a weaker first quarter of 2015 compared with a year ago.

However, we remain encouraged about our prospects. While we may initially see lower levels of activity, the diverse range of our product offerings and our strong financial position should allow us not only to weather any near-term uncertainties, but also capitalize on the opportunities arising from the current environment. Moreover, while exchange rates are hard to predict, if the current rate of approximately \$1.25 Canadian for a US dollar were to prevail for the year, our 2015 results would benefit compared with 2014, when our average Canadian-to-US exchange rate was \$1.10.

Given the backdrop of the lower energy price environment in which we expect to operate throughout 2015, our outlook by product group is as follows:

Petroleum Products

Petroleum Products is our largest revenue group and the most mature market. It has three sub-markets:

- Downstream Petroleum (retail), which is both the largest sub-market of this segment and ZCL's largest overall revenue source, benefits from declining oil and hence gasoline prices, as retail margins expand and cash flows increase to support new construction and tank upgrades and replacements.
- Upstream Petroleum (exploration and production), will likely experience a negative impact as cuts in capital spending programs by our customers in this area have already been announced and will most likely continue until energy prices recover. However, any negative impact on ZCL should be reduced as the Upstream Petroleum sub-market represents only 2% of our annual revenues.
- Midstream Petroleum (underground tanks for pipeline systems), which also represents approximately 2% of our revenue base, will likely experience no negative impact in 2015. Takeaway and delivery system expansions for 2015 are already well underway and capital is committed to these projects.

Petroleum Products should deliver continued moderate growth and should generally benefit from the decline in oil and gas prices.

Water Products

In our Water Products group, we expect to benefit from the increased economic growth that many are forecasting will result from lower energy prices, particularly in the US. As economic activity increases, moderate growth in construction activity should continue to create increased demand for our Water Products group offerings.

Corrosion Products

In our Corrosion Products group, lower energy prices will likely have a negative impact on the Oil Sands sub-market and a positive impact on the Industrial Corrosion sub-markets.

Sales to our customers in the Oil Sands will be negatively impacted by lower energy prices as planned capacity expansion projects are delayed or deferred. While this may materially impact 2015 Oil Sands customer revenue, the overall impact on ZCL should be diminished as the Oil Sands historically accounts for less than 10% of our total annual revenues. Also, to minimize the impact of potential lower revenues from the Oil Sands customers, we are redirecting our sales and marketing efforts into other markets in Western Canada, including industrial chemicals, pulp and paper, mining, and agriculture.

Industrial Corrosion markets, which make up the majority of our Aboveground segment revenues, should benefit from lower energy prices as both the industrial chemical markets and the power generation markets should see both lower operating costs and lower raw material costs, providing increased profits and cash flow to fund expansion projects. Industrial chemicals and power generation are two of our major areas of emphasis within Industrial Corrosion.

2015 Capital Investment Plan

In 2015, our operations group plans to incur capital investment at a level similar to 2014, in order to further progress lean initiatives within our facilities. ZCL's maintenance capital requirements are historically between \$3 million to \$5 million annually. For 2015, similar to 2014, ZCL's capital budget is planned to be at the upper end of that range in order to continue to upgrade certain of our existing facilities and equipment with the intent to further improve lead times and process flow.

Management's Discussion and Analysis

SELECTED FINANCIAL INFORMATION

| (in thousands of dollars, except per share amounts) | Year Ended December 31 | | |
|---|------------------------|----------------|----------------|
| | 2014 \$ | 2013 \$ | 2012 \$ |
| Underground Fluid Containment Revenue | 139,087 | 121,692 | 114,442 |
| Aboveground Fluid Containment Revenue | 31,748 | 40,012 | 55,917 |
| Total revenue | 170,835 | 161,704 | 170,359 |
| Gross profit (note 1) | 34,460 | 33,482 | 29,919 |
| Gross margin (note 1) | 20% | 21% | 18% |
| General and administration | 9,076 | 8,552 | 8,571 |
| Foreign exchange (gain) loss | (1,008) | (46) | 43 |
| Depreciation and amortization | 3,748 | 3,991 | 3,673 |
| Finance expense | 383 | 446 | 770 |
| Loss (gain) on disposal of assets | 50 | 106 | (246) |
| Gain on redemption of preferred shares | - | - | (670) |
| Impairment of assets | - | - | 182 |
| Other items | - | - | (638) |
| Income tax expense | 5,895 | 6,048 | 4,744 |
| Net income | 16,316 | 14,385 | 13,490 |
| Earnings per share | | | |
| Basic | 0.54 | 0.49 | 0.47 |
| Diluted | 0.54 | 0.49 | 0.46 |
| Cash dividends declared per common share | 0.15 | 0.11 | 0.055 |
| Adjusted EBITDA (note 1) | 27,077 | 25,600 | 22,518 |
| Adjusted EBITDA as a % of revenue | 16% | 16% | 13% |
| Adjusted EBITDA per diluted share | 0.89 | 0.86 | 0.76 |
| Cash Flows | | | |
| Funds from operations (note 1 & 2) | 20,771 | 18,413 | 15,152 |
| Changes in non-cash working capital | (3,458) | (521) | (5,355) |
| Net repayment of long term debt | (1,415) | (1,350) | (1,376) |
| Redemption of preferred shares | - | - | (2,075) |
| Issuance of common shares on exercise of stock options | 1,328 | 2,934 | 847 |
| Dividends paid | (4,193) | (2,923) | (1,010) |
| Purchase of capital and intangible assets, net of disposals | (3,775) | (2,965) | (2,810) |
| (in thousands of dollars) | As at December 31 | | |
| | 2014 \$ | 2013 \$ | 2012 \$ |
| Financial Position | | | |
| Working capital (note 1) | 62,577 | 47,844 | 31,655 |
| Total assets | 156,654 | 134,315 | 120,526 |
| Return on capital employed (note 1) | 29% | 29% | 27% |
| Net cash (note 1) | 25,788 | 15,146 | 84 |
| Total non-current liabilities | 6,576 | 7,397 | 8,618 |

Note 1: Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, return on capital employed, and net cash 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.

RESULTS OF OPERATIONS

Revenue

| (\$000s) | Twelve Months | | |
|---------------------------------------|----------------|---------|----------|
| | 2014 | 2013 | % change |
| Underground Fluid Containment: | | | |
| Petroleum Products | 120,437 | 104,878 | 15% |
| Water Products | 18,650 | 16,814 | 11% |
| | 139,087 | 121,692 | 14% |
| Aboveground Fluid Containment: | | | |
| Corrosion Products | 31,748 | 40,012 | (21%) |
| | 170,835 | 161,704 | 6% |

Record revenue of \$170.8 million for the year ended December 31, 2014, was up \$9.1 million or 6% from \$161.7 million in the prior year. Record revenue was generated by both the Petroleum and Water Product groups, however this growth was partially offset by a decrease in the Corrosion Products group. The change in revenue reflects the factors noted below:

Underground Fluid Containment

Underground revenue of \$139.1 million, was \$17.4 million or 14% higher for the year ended December 31, 2014, compared with the year ended December 31, 2013.

The \$15.6 million or 15% increase in Petroleum Products revenue was attributable to the US market with an increase of \$10.7 million or 15%, prior to a positive foreign exchange conversion impact for reporting purposes of \$6.2 million.

In the US, sales to retail petroleum marketers were up 19% compared to 2013, while sales to distributors and contractors were flat.

Canadian Petroleum Products revenue in 2014 was down \$1.9 million or 7% from 2013, attributable to a decrease in sales to distributors, contractors and retail petroleum marketers, and partially offset by an increase in sales to major oil customers. The available capacity in the Canadian production facilities was utilized to support the substantial increase in sales to US customers noted above.

Petroleum Products revenue also includes international operations which were up \$0.5 million, primarily due to higher Parabeam® sales, as compared to 2013.

The \$1.8 million, or 11% increase in Water Products revenue in 2014 compared with 2013 was attributable to US sales, which rose by \$1.9 million or 16% compared to 2013. The US sales include a positive exchange impact of \$1.0 million on the conversion of US to Canadian dollar sales for reporting purposes. Canadian Water Products sales were comparable with 2013.

Aboveground Fluid Containment

Aboveground revenue of \$31.7 million for 2014 was \$8.3 million or 21% lower than \$40.0 million a year earlier. Oil Sands revenue increased by \$2.0 million as compared to 2013. In the Industrial Corrosion market, revenue was down \$11.1 million prior to a \$0.8 million positive foreign exchange conversion impact for reporting purposes. A \$10.7 million decrease in field service revenue was the primary contributor to the reduction in revenue compared to what was earned in 2013.

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 | | | |
|-------------------------------|---------------|--------|----------|---------------|
| | 2014 | 2013 | % change | % of rev 2014 |
| Underground Fluid Containment | 30,228 | 25,451 | 19% | 22% |
| Aboveground Fluid Containment | 4,232 | 8,031 | (47%) | 13% |
| | 34,460 | 33,482 | 3% | 20% |

In 2014, gross profit of \$34.5 million increased by \$1.0 million or 3% compared to 2013. Gross margin decreased to 20% from 21% in 2013, primarily due to results in the Aboveground operating segment. The changes reflect the factors discussed below:

Underground Fluid Containment

Underground gross profit of \$30.2 million was up \$4.8 million or 19% from \$25.5 million in 2013. The increase in gross profit was derived from the increase in sales to the US Petroleum Products and Water Products markets. Gross margin of 22%, a one percentage point increase from 21% in 2013, was derived from the Canadian operations. The US operations gross margin was comparable to 2013.

Management's Discussion and Analysis

Aboveground Fluid Containment

Aboveground gross profit was \$4.2 million, down \$3.8 million or 47% from \$8.0 million in 2013. Gross margin of 13% decreased seven percentage points from 20% in 2013. The deterioration in gross margin was derived from the Industrial Corrosion markets which were impacted by lower margin orders in the current year, along with a reduction in field service work in 2014, compared to 2013. The gross profit reduction was partially offset by a \$0.5 million improvement of gross profit in the Oil Sands market in 2014.

General and Administration

| (\$000s) | Twelve Months |
|----------|---------------|
| 2014 | 9,076 |
| 2013 | 8,552 |
| % change | 6% |

General and administration ("G&A") expense for the year ended December 31, 2014 was up 6% compared to 2013. The year over year increase was the result of inflationary cost increases and the conversion of US dollar denominated G&A to Canadian dollars for reporting purposes.

Foreign Exchange Gain

| (\$000s) | Twelve Months |
|----------|---------------|
| 2014 | (1,008) |
| 2013 | (46) |

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

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

US Dollar Conversion Rates

| Year Ended | 2014 | | 2013 | | Avg. Change | Close Change |
|------------|------|-------|------|-------|-------------|--------------|
| | Avg. | Close | Avg. | Close | | |
| Q1 | 1.10 | 1.11 | 1.01 | 1.02 | 9% | 9% |
| Q2 | 1.09 | 1.07 | 1.02 | 1.05 | 7% | 2% |
| Q3 | 1.09 | 1.12 | 1.04 | 1.03 | 5% | 9% |
| Q4 | 1.14 | 1.16 | 1.05 | 1.07 | 9% | 8% |
| Annual | 1.10 | 1.16 | 1.03 | 1.07 | 7% | 8% |

euro Conversion Rates

| Year Ended | 2014 | | 2013 | | Avg. Change | Close Change |
|------------|------|-------|------|-------|-------------|--------------|
| | Avg. | Close | Avg. | Close | | |
| Q1 | 1.51 | 1.52 | 1.33 | 1.31 | 14% | 16% |
| Q2 | 1.50 | 1.46 | 1.34 | 1.37 | 12% | 7% |
| Q3 | 1.44 | 1.42 | 1.38 | 1.39 | 4% | 2% |
| Q4 | 1.42 | 1.41 | 1.43 | 1.47 | (1%) | (4%) |
| Annual | 1.47 | 1.41 | 1.37 | 1.47 | 7% | (4%) |

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 |
|----------|---------------|
| 2014 | 3,748 |
| 2013 | 3,991 |
| % change | (6%) |

The 6% year over year decrease in depreciation and amortization expense primarily resulted from certain intangible assets on the Xerxes acquisition which became fully amortized during the first quarter of 2014. Overall, annual capital expenditures were up \$1.4 million in 2014, to \$4.4 million, compared to \$3.0 million in the prior year.

Finance Expense

| (\$000s) | Twelve Months |
|----------|---------------|
| 2014 | 383 |
| 2013 | 446 |
| % change | (14%) |

The 14% reduction in finance expense in 2014 compared to 2013 resulted from the year over year reduction in long term debt and the slight reduction of the lending rate that occurred in the second quarter of 2013.

Income Taxes

Income tax expense for the year ended December 31, 2014, represented 26.5% of pre-tax income, compared to 29.6% of pre-tax income in 2013. Although there is a higher percentage of earnings in the US versus Canada which contribute to a higher effective tax rate, the reduction in rate is primarily due to the foreign exchange gain of \$1.0 million incurred in 2014. This gain is not taxed at the same rate as operating income, therefore reducing the effective tax rate in 2014 compared to 2013.

Management's Discussion and Analysis

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.

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

| (\$000s) | Twelve Months |
|----------|---------------|
| 2014 | 4,814 |
| 2013 | 4,219 |

The foreign translation gain in the year ended December 31, 2014 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the year from 1.07 to 1.16. In 2013, the US dollar also strengthened from 1.01 to 1.07 generating a gain on the translation of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2014, the Company increased working capital (current assets less current liabilities) by \$14.8 million to \$62.6 million compared to \$47.8 million as at December 31, 2013. The majority of the increase was attributed to positive funds from operations of \$20.8 million combined with increased inventory. Increases in accounts receivable also contributed to the improvement in working capital. These increases were partially offset by increases in accounts payable and dividends payable when compared to 2013.

As at December 31, 2014, the Company had cash and cash equivalents of \$28.4 million (December 31, 2013 - \$18.9 million) and net cash of \$25.8 million (December 31, 2013 - net cash of \$15.1 million). Net cash is 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.

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, 2016.

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 US dollars, with the balance due on maturity on May 31, 2016. 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, 2014, the company issued 365,543 shares on the exercise of stock options.

Management's Discussion and Analysis

Cash Flows

| (\$000's) | Twelve Months | |
|---------------------------------|---------------|---------|
| | 2014 | 2013 |
| Operating activities | 17,313 | 17,892 |
| Financing activities | (4,280) | (1,339) |
| Investing activities | (3,775) | (2,965) |
| Foreign exchange ⁽¹⁾ | 249 | 448 |
| | 9,507 | 14,036 |

(1) Foreign exchange gain 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 \$20.8 million for the year ended December 31, 2014, up \$2.4 million from \$18.4 million for the year ended December 31, 2013. The increase relative to 2013 is due primarily to the improvement in net income.

Changes in non-cash working capital totalled negative \$3.5 million for the year ended December 31, 2014 compared to negative \$0.5 million for the year ended December 31, 2013. The increase in inventory was the major contributing factor for the growth in non-cash working capital requirements relative to 2013 along with an increase in accounts receivable. These inventory and accounts receivable increases were partially offset by an increase in accounts payable and accrued liabilities as at December 31, 2014 compared to December 31, 2013.

Financing Activities

Cash flows used in financing activities were \$4.3 million for the year ended December 31, 2014 compared to \$1.3 million for the year ended December 31, 2013. Dividends paid in 2014 were \$4.2 million, a \$1.3 million increase over 2013. The exercise of stock options in 2014 generated \$1.3 million in cash inflows compared to the \$2.9 million generated in 2013.

Investing Activities

The cash flows used in investing activities were \$3.8 million for the year ended December 31, 2014 compared to \$3.0 million for 2013. Purchases of property, plant and equipment and intangible assets were \$1.3 million higher in 2014 than 2013, however these purchases were partially offset by higher proceeds on disposal of property, plant and equipment in 2014 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 \$0.3 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 \$1.0 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, 2014, the performance letters of credit issued totalled \$0.5 million.

As at December 31, 2014, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled \$11.2 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 |
|------------|----------------|------------------|--------|
| 2015 | 1,498 | 2,517 | 4,015 |
| 2016 | 1,103 | 1,962 | 3,065 |
| 2017 | - | 1,553 | 1,553 |
| 2018 | - | 1,126 | 1,126 |
| 2019 | - | 776 | 776 |
| Thereafter | - | 3,292 | 3,292 |
| Total | 2,601 | 11,226 | 13,827 |

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 1.01 in the first quarter of 2013 to a high of 1.16 in the fourth quarter of 2014.

| For the three months ended <i>(in thousands of dollars, except per share amounts)</i> | 2014 | | | | 2013 | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 48,195 | 49,361 | 41,687 | 31,592 | 37,715 | 43,931 | 47,250 | 32,809 |
| Net income | 4,895 | 5,557 | 4,492 | 1,372 | 1,769 | 4,993 | 5,087 | 2,536 |
| Adjusted EBITDA <i>(note 1)</i> | 7,702 | 8,834 | 7,382 | 3,159 | 3,975 | 8,512 | 8,316 | 4,797 |
| Basic earnings per share | 0.16 | 0.19 | 0.15 | 0.05 | 0.06 | 0.17 | 0.17 | 0.09 |
| Diluted earnings per share | 0.16 | 0.18 | 0.15 | 0.05 | 0.06 | 0.17 | 0.17 | 0.09 |
| Adjusted EBITDA per diluted share <i>(note 1)</i> | 0.25 | 0.29 | 0.24 | 0.10 | 0.13 | 0.28 | 0.28 | 0.16 |
| Dividends declared per share | 0.04 | 0.04 | 0.035 | 0.035 | 0.03 | 0.03 | 0.025 | 0.025 |

Note 1: Adjusted EBITDA and adjusted EBITDA per diluted share are non-IFRS measures and are defined later in this MD&A under "Non-IFRS Measures."

Management's Discussion and Analysis

FOURTH QUARTER RESULTS

Selected Financial Information

| (in thousands of dollars, except per share amounts) | Fourth Quarter Ended December 31 | |
|--|----------------------------------|---------------|
| | 2014 \$ | 2013 \$ |
| Operating Results | | |
| Revenue | | |
| Underground Fluid Containment | 37,616 | 32,074 |
| Aboveground Fluid Containment | 10,579 | 5,640 |
| Total revenue | 48,195 | 37,714 |
| Gross profit (<i>note 1</i>) | 9,138 | 5,755 |
| Gross margin (<i>note 1</i>) | 19% | 15% |
| General and administration | 2,156 | 1,989 |
| Foreign exchange gain | (568) | (52) |
| Depreciation and amortization | 1,000 | 1,077 |
| Finance expense | 97 | 97 |
| Loss on disposal of assets | 104 | 106 |
| Income tax expense | 1,454 | 769 |
| Net income | 4,895 | 1,769 |
| Earnings per share | | |
| Basic | 0.16 | 0.06 |
| Diluted | 0.16 | 0.06 |
| Cash dividends declared per common share | 0.04 | 0.03 |
| Adjusted EBITDA (<i>note 1</i>) | 7,702 | 3,975 |
| Adjusted EBITDA as a % of revenue | 16% | 11% |
| Adjusted EBITDA per diluted share | 0.25 | 0.13 |
| Cash Flows | | |
| Funds from operations (<i>note 1 & 2</i>) | 6,582 | 2,667 |
| Changes in non-cash working capital | 8,705 | 9,174 |
| Net repayment of long term debt | (375) | (338) |
| Issuance of common shares on exercise of stock options | 827 | 1,302 |
| Dividends paid | (1,200) | (885) |
| Purchase of capital and intangible assets | (1,794) | (1,026) |
| Disposal of assets | 33 | 125 |

Note 1: Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share 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 2014 was \$4.9 million, up 177% or \$3.1 million from \$1.8 million a year earlier. Earnings per diluted share in the fourth quarter of 2014 were \$0.16, up \$0.10 or 167% from \$0.06 per diluted share a year earlier. The increase in net income was primarily a result of higher revenues from the both the Underground and Aboveground operating segments along with a foreign exchange gain of \$0.6 million.

Revenue

| (\$000s) | Fourth Quarter | | |
|---------------------------------------|----------------|--------|----------|
| | 2014 | 2013 | % change |
| Underground Fluid Containment: | | | |
| Petroleum Products | 31,669 | 27,634 | 15% |
| Water Products | 5,947 | 4,440 | 34% |
| | 37,616 | 32,074 | 17% |
| Aboveground Fluid Containment: | | | |
| Corrosion Products | 10,579 | 5,640 | 88% |
| | 48,195 | 37,714 | 28% |

Revenue for the fourth quarter ended December 31, 2014, was \$48.2 million, up \$10.5 million or 28% from \$37.7 million in the fourth quarter of 2013. Increased revenue was derived from both the Underground and Aboveground operating segments. The change in revenue reflects the factors noted below:

Underground Fluid Containment

Underground revenue of \$37.6 million was \$5.5 million or 17% higher in the fourth quarter of 2014, compared with \$32.1 million in the fourth quarter of 2013.

In the fourth quarter of 2014, Petroleum Products revenue was \$31.7 million, up \$4.0 million or 15% from \$27.6 million in the same period last year. The increase was attributable to the US market, which was up \$2.9 million prior to a positive impact on the US to Canadian dollar translation for reporting purposes. In the US, sales to retail petroleum marketers were up 25%, while sales to distributors and contractors were comparable to the fourth quarter a year earlier.

In the Canadian Petroleum Products market, revenue was down \$0.9 million for the fourth quarter of 2014, due to a decrease in sales to distributors and retail stations, partially offset by increased sales to major oil customers.

Petroleum Products also includes revenue from international operations, which was comparable to the fourth quarter of 2014.

Water Products revenue for the fourth quarter of 2014 of \$5.9 million was up \$1.5 million or 34% from \$4.4 million in the fourth quarter of 2013. The increase was attributable to the US market which was up \$1.4 million over the fourth quarter of 2013 prior to a positive foreign exchange translation adjustment for reporting purposes. The Canadian market was down \$0.3 million, compared to the fourth quarter of 2013.

Aboveground Fluid Containment

Aboveground revenue of \$10.6 million in the fourth quarter of 2014 was \$4.9 million or 88% higher than \$5.6 million in the same quarter a year earlier, with the increase attributable to both US and Canadian markets. Revenue from our Western Canadian Corrosion customers was up \$1.8 million as compared to the same quarter in 2013. In Industrial Corrosion, revenue from our field service operations was up 32% and product revenue was up \$3.2 million compared to the fourth quarter of 2013.

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) | Fourth Quarter | | | % of rev 2014 |
|-------------------------------|----------------|-------|----------|---------------|
| | 2014 | 2013 | % change | |
| Underground Fluid Containment | 7,587 | 5,673 | 34% | 20% |
| Aboveground Fluid Containment | 1,551 | 82 | 1,789% | 15% |
| | 9,138 | 5,755 | 59% | 19% |

In the fourth quarter of 2014, gross profit of \$9.1 million increased by \$3.4 million or 59% compared to \$5.8 million for the same quarter in 2013. Gross margin increased four percentage points to 19% from 15% in the same quarter of 2013. These changes reflect the factors discussed below:

Underground Fluid Containment

Underground gross profit of \$7.6 million was up \$1.9 million or 34% from \$5.7 million in the same quarter of 2013. Gross margin for the fourth quarter increased two percentage points year over year to 20%, up from 18%. Gross margin increased in both the US and Canadian Underground operations compared to the same quarter in 2014.

Management's Discussion and Analysis

Aboveground Fluid Containment

Aboveground gross profit was \$1.6 million, up \$1.5 million from \$0.1 million for the quarter ended December 31, 2013. Gross margin of 15% was up 13 percentage points from 2% in the fourth quarter of 2013. The year over year increases in both gross margin and gross profit were due to an increase in sales volume. The prior year did not have enough revenue to adequately support the fixed manufacturing cost base in the Aboveground operating segment. The increase in the gross profit and gross margin in the fourth quarter of 2014 was derived from both US and Canadian Aboveground markets.

General and Administration

| (\$000s) | Fourth Quarter |
|----------|----------------|
| 2014 | 2,156 |
| 2013 | 1,989 |
| % change | 8% |

General and administration ("G&A") expense of \$2.2 million for the fourth quarter ended December 31, 2014 was up \$0.2 million or 8% over the fourth quarter of 2013. The increase was primarily a result of inflationary cost pressures, when compared to the same quarter of 2013.

Foreign Exchange Gain

| (\$000s) | Fourth Quarter |
|----------|----------------|
| 2014 | (568) |
| 2013 | (52) |

The foreign exchange gain 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 | 2014 | | 2013 | | Avg. Change | Close Change |
|----------------|------|-------|------|-------|-------------|--------------|
| | Avg. | Close | Avg. | Close | | |
| USD | 1.14 | 1.16 | 1.05 | 1.07 | 9% | 8% |
| euro | 1.42 | 1.41 | 1.43 | 1.47 | (1%) | (4%) |

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 |
|----------|----------------|
| 2014 | 1,000 |
| 2013 | 1,077 |
| % change | (7%) |

The 7% decrease in depreciation and amortization expense for the quarter ended December 31, 2014 compared to the quarter ended December 31, 2013, primarily resulted from certain intangible assets on the Xerxes acquisition which became fully amortized during the first quarter of 2014.

Finance Expense

| (\$000s) | Fourth Quarter |
|----------|----------------|
| 2014 | 97 |
| 2013 | 97 |
| % change | nil |

Finance expense was comparable, quarter over quarter.

Income Taxes

Income tax expense for the three months ended December 31, 2014, represented 23% of pre-tax income, compared to 30% of pre-tax income in the same quarter of 2013. The decrease in the 2014 annual effective tax rate to 26.5% is a result of the foreign exchange gain of \$0.6 million incurred in 2014. This gain is not taxed at the same rate as operating income, therefore reducing the effective tax rate in 2014 compared to 2013.

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.

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

| (\$000s) | Fourth Quarter |
|----------|----------------|
| 2014 | 2,637 |
| 2013 | 2,319 |

The foreign translation gain in the fourth quarter of 2014 was due to strengthening of the US dollar relative to the Canadian dollar throughout the three months from 1.12 to 1.16. In the fourth quarter of 2013, the US dollar also strengthened from 1.03 to 1.07.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of \$62.6 million as at December 31, 2014 was an improvement over the \$57.2 million at September 30, 2014. Positive cash flows from operations of \$6.6 million, were the primary driver in the improvement in working capital as compared to the prior quarter.

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, 2014.

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, 2014, was prime plus 75 basis points, 3.75% (December 31, 2013 - prime plus 75 basis points, 3.75%) adjusted quarterly based on certain financial indicators of the Company. The effective interest rate on the term loan balance as at December 31, 2014, was the 30 day US LIBOR rate plus 225 basis points, 2.42% (December 31, 2013 – US LIBOR rate plus 225 basis points, 2.41%), 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, 2014 would have a minimal impact on net income for the year ended December 31, 2014.

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, 2014. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the period ("balance sheet exposure"), which are separated by domestic and foreign operations, and US dollar denominated revenue and operating expenses during the period ("operating exposure").

Balance sheet exposure related to financial assets, net of financial liabilities, at December 31, 2014, was as follows:

| (in thousands of US dollars) | \$ |
|-----------------------------------|---------------|
| Foreign operations | 11,936 |
| Domestic operations | 7,091 |
| Net balance sheet exposure | 19,027 |

Management's Discussion and Analysis

Operating exposure for the twelve months ended December 31, 2014, was as follows:

| (in thousands of US dollars) | \$ |
|------------------------------|---------|
| Sales | 109,246 |
| Operating expenses | 93,243 |
| Net operating exposure | 16,003 |

The weighted average US to Canadian dollar translation rate was 1.10 for the year ended December 31, 2014. The translation rate as at December 31, 2014, was 1.16.

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, 2014, as follows:

| (in thousands of US dollars) | \$ |
|---|-------|
| Net balance sheet exposure of domestic operations | 1,057 |
| Net operating exposure of foreign operations | 1,926 |
| Change in net income | 2,983 |

Other comprehensive income would have changed \$1.5 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, 2014, no customer exceeded 10% of the

consolidated trade accounts receivable balance. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

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

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of \$27.1 million as at December 31, 2014 (December 31, 2013 - \$24.7 million). On a geographic basis as at December 31, 2014, approximately 48% (December 31, 2013 - 22%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 52% (December 31, 2013 - 78%) was due from US customers. The change in geographic accounts receivable is mainly due to a disputed significant receivable existing on December 31, 2013 of \$3.9 million US that was settled at the beginning of 2014.

Payment terms are generally net 30 days. As at December 31, 2014, the percentages of trade accounts receivable were as follows:

| | December 31, 2014 | December 31, 2013 |
|----------------------------------|----------------------|----------------------|
| Current | 58% | 45% |
| Past due 1 to 30 days | 23% | 24% |
| Past due 31 to 60 days | 13% | 19% |
| Past due 61 to 90 days | 3% | 3% |
| Past due greater than 90 days | 3% | 9% |
| Total | 100% | 100% |

Management's Discussion and Analysis

Liquidity Risk

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

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

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

RISKS AND UNCERTAINTIES

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

Environmental Risks

To conduct business operations, the Company owns or leases properties and is subject to environmental risks due to the use of chemicals in the manufacturing process.

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.

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for \$90,000 (2013 - \$27,000) for the year ended December 31, 2014, 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, 2014, included \$11,000 (December 31, 2013 - \$1,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

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, 2014 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.

Project Cost Forecasting

The Company routinely enters into large field service and manufacturing projects in the Aboveground operating segment. On an ongoing basis and at every reporting period, management performs an analysis on these projects to estimate if the total expected project costs are recoverable relative to the purchase order value of the project. The actual outcome of these projects may differ 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, until January 31, 2015, the Company marketed a storage system under the Prezerver® trademark that carried an enhanced protection program. The Prezerver system included an enhanced 10 year limited warranty covering product replacement, third-party pollution protection, site clean-up and defence costs up to the limits allowed under the warranty. Until December 1, 2006, the Canadian Prezerver program was covered by insurance underwritten by a major international insurer. Effective December 1, 2006, the Company formed its own insurance captive to insure the Prezerver program. Effective January 31, 2015, the Company ceased offering the Canadian Prezerver program due to changing market conditions.

The Company provides for warranty obligations based on a review of products sold and historical warranty costs experienced. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur. While the Company maintains high quality standards and has a limited history of liability or warranty problems under its standard warranties or Prezerver 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 Prezerver warranty, the maximum exposure to the Company for warranty claims is, at the Company's sole discretion, to repair or replace the product giving rise to the claim. The actual costs of warranties may vary from those estimated, and the difference may be material.

NEW ACCOUNTING STANDARDS

Standards effective January 1, 2014

During the year, the Company applied certain standards and amendments that did not significantly impact the consolidated financial statements of the Company. These include Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32, Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39, Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 and IFRIC 21 Levies.

Standards issued but not yet effective

The listing below includes standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective. The Company is in the process of analysing the impact of these standards on the statement of financial position and results of operations of the Company:

- In December 2013, the IASB issued Annual Improvements (2010-2012 Cycle) to make necessary but non-urgent amendments to IFRS 2 Share-based Payments; IFRS 3 Business Combinations (IFRS 3); IFRS 8 Operating Segments; IFRS 13 Fair Value Measurement (IFRS 13); IAS 16 Property, Plant, and Equipment; IAS 24 Related Party Disclosures; and IAS 38 Intangible Assets. These amendments are effective for annual periods beginning on or after July 1, 2014.
- In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15). IFRS 15 applies to all revenue contracts with customers and provides a model for the recognition and measurement of the sale of some non-financial assets such as property, plant, and equipment and intangible assets. This new standard sets out a five-step model for revenue recognition and applies to all industries. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to

in exchange for those goods or services. IFRS 15 requires numerous disclosures, such as the disaggregation of total revenue, disclosures about performance obligations, changes in contract asset and liability account balances, and key judgments and estimates. This new standard, effective January 1, 2017, may be adopted using a full retrospective or modified retrospective approach.

- In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9) to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. In addition, it includes a single expected-loss impairment model and a reformed approach to hedge accounting. This standard is effective January 1, 2018, on a retrospective basis subject to certain exceptions.

- In September 2014, the IASB issued Annual Improvements (2012-2014 Cycle) to make necessary but non-urgent amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 Financial Instrument: Disclosures (IFRS 7); and IAS 34 Interim Financial Reporting. These amendments are effective January 1, 2016, on a retrospective basis with the exception of IAS 34 which is effective on a prospective basis.
- In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1). It provides amended guidance on materiality and on the order of the notes to the financial statements. These amendments can be applied immediately, and become mandatory for periods beginning on or after January 1, 2016.

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, 2014, 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, 2014, 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,

2014, 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, 2014, 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, 2014 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, 2014, 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.

OUTSTANDING SHARE DATA

As at March 5, 2015, there were 30,245,828 common shares and 1,484,350 share options outstanding. Of the options outstanding, 1,019,633 are currently exercisable into common shares.

OTHER INFORMATION

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

NON-IFRS MEASURES

The Company uses both IFRS and non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS measures provide useful supplemental information to investors. Gross profit, gross margin, adjusted EBITDA, adjusted EBITDA per diluted share, funds from operations, working capital, 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.

Adjusted EBITDA per diluted share is defined as adjusted EBITDA divided by weighted average diluted shares outstanding.

Funds from 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 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, plus 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 | | |
|---------------------------------|-------------------------------------|--------|---------------------------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 | 2012 |
| (in thousands of dollars) | \$ | \$ | \$ | \$ | \$ |
| Revenue | 48,195 | 37,714 | 170,835 | 161,704 | 170,359 |
| Manufacturing and selling costs | 39,057 | 31,959 | 136,375 | 128,222 | 140,440 |
| Gross profit | 9,138 | 5,755 | 34,460 | 33,482 | 29,919 |
| <i>Gross margin</i> | 19% | 15% | 20% | 21% | 18% |

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

| | Fourth Quarter Ended December 31 | | Year Ended December 31 | | |
|--|-------------------------------------|-------|---------------------------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 | 2012 |
| (in thousands of dollars) | \$ | \$ | \$ | \$ | \$ |
| Net income from operations | 4,895 | 1,769 | 16,316 | 14,385 | 13,490 |
| Adjustments: | | | | | |
| Depreciation and amortization | 1,000 | 1,077 | 3,748 | 3,991 | 3,673 |
| Finance expense | 97 | 97 | 383 | 446 | 770 |
| Income tax expense | 1,454 | 769 | 5,895 | 6,048 | 4,744 |
| EBITDA | 7,446 | 3,712 | 26,342 | 24,870 | 22,677 |
| Share-based compensation | 152 | 157 | 685 | 624 | 575 |
| Loss (gain) on disposal of property, plant & equipment | 104 | 106 | 50 | 106 | (246) |
| Gain on settlement of preferred shares | - | - | - | - | (670) |
| Impairment of assets | - | - | - | - | 182 |
| Adjusted EBITDA | 7,702 | 3,975 | 27,077 | 25,600 | 22,518 |
| <i>Adjusted EBITDA as a percentage of revenue</i> | 16% | 11% | 16% | 16% | 13% |

The following table presents the calculation of adjusted EBITDA per diluted share.

| | Fourth Quarter Ended December 31 | | Year Ended December 31 | | |
|---|-------------------------------------|--------|---------------------------|--------|--------|
| | 2014 | 2013 | 2014 | 2013 | 2012 |
| Numerator (in thousands of dollars) | \$ | \$ | \$ | \$ | \$ |
| Adjusted EBITDA | 7,702 | 3,975 | 27,077 | 25,600 | 22,518 |
| Denominator (in thousands) | | | | | |
| Weighted average shares outstanding - basic | 30,038 | 29,655 | 29,963 | 29,308 | 28,963 |
| Effect of dilutive securities: | | | | | |
| Stock options | 432 | 686 | 416 | 399 | 637 |
| Weighted average shares outstanding - diluted | 30,470 | 30,341 | 30,379 | 29,707 | 29,600 |
| Adjusted EBITDA per diluted share | 0.25 | 0.13 | 0.89 | 0.86 | 0.76 |

Management's Discussion and Analysis

The following table presents the calculation of funds from operations.

| | Fourth Quarter Ended | | Year Ended | | |
|--|----------------------|-------|-------------|--------|---------|
| | December 31 | | December 31 | | |
| (in thousands of dollars) | 2014 | 2013 | 2014 | 2013 | 2012 |
| | \$ | \$ | \$ | \$ | \$ |
| Net income from operations | 4,895 | 1,769 | 16,316 | 14,385 | 13,490 |
| Add (deduct) items not affecting cash: | | | | | |
| Depreciation and amortization | 1,000 | 1,077 | 3,748 | 3,991 | 3,673 |
| Deferred tax (recovery) expense | 431 | (442) | (28) | (693) | (412) |
| Loss (gain) on disposal of property, plant & equipment | 104 | 106 | 50 | 106 | (246) |
| Gain on settlement of preferred shares | - | - | - | - | (670) |
| Share-based compensation | 152 | 157 | 685 | 624 | 575 |
| Impairment of assets | - | - | - | - | 182 |
| Non-cash proceeds on settlement of claims | - | - | - | - | (1,348) |
| Other | - | - | - | - | (92) |
| Funds from operations | 6,582 | 2,667 | 20,771 | 18,413 | 15,152 |

The following table presents the calculation of working capital.

| | As at | | |
|---------------------------|-------------------|-------------------|-------------------|
| | December 31, 2014 | December 31, 2013 | December 31, 2012 |
| (in thousands of dollars) | \$ | \$ | \$ |
| Current assets | 89,259 | 70,004 | 57,728 |
| Current liabilities | 26,682 | 22,160 | 26,073 |
| Working capital | 62,577 | 47,844 | 31,655 |

The following table presents the calculation of net cash.

| | As at | | |
|--|-------------------|-------------------|-------------------|
| | December 31, 2014 | December 31, 2013 | December 31, 2012 |
| (in thousands of dollars) | \$ | \$ | \$ |
| Cash and cash equivalents | 28,389 | 18,882 | 4,846 |
| Less: Bank indebtedness | - | - | - |
| Less: Long term debt (including current portion) | (2,601) | (3,736) | (4,762) |
| Net cash | 25,788 | 15,146 | 84 |

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

| | As at | | |
|--|-------------------|-------------------|-------------------|
| | December 31, 2014 | December 31, 2013 | December 31, 2012 |
| (in thousands of dollars) | \$ | \$ | \$ |
| Adjusted EBITDA | 27,077 | 25,600 | 22,518 |
| Average capital employed: | | | |
| Shareholders' equity | 114,077 | 95,297 | 80,010 |
| Long term debt (including current portion) | 3,169 | 4,249 | 5,518 |
| Preferred shares (including current portion) | - | - | 2,591 |
| Less: cash and cash equivalents | (23,635) | (11,864) | (3,277) |
| Average capital employed | 93,611 | 87,682 | 84,842 |
| Return on capital employed (Adjusted EBITDA/Average Capital Employed) | 29% | 29% | 27% |

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," "forecast," "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. 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, tight 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, 2014 and 2013

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, 2014, and 2013, and the consolidated statements of income, comprehensive income, and shareholders' equity and cash flows for the years ended December 31, 2014 and 2013, 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, 2014, and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada

March 5, 2015

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered accountants

MANAGEMENT'S REPORT

March 5, 2015

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

Consolidated Financial Statements

Consolidated Balance Sheets

As at

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| (in thousands of dollars) | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 28,389 | 18,882 |
| Accounts receivable <i>[note 20]</i> | 27,793 | 25,083 |
| Inventories <i>[note 5]</i> | 31,028 | 23,810 |
| Income taxes recoverable | 980 | 1,379 |
| Prepaid expenses | 1,069 | 850 |
| | 89,259 | 70,004 |
| Property, plant and equipment <i>[note 7]</i> | 29,143 | 27,254 |
| Intangible assets <i>[note 8]</i> | 3,819 | 4,934 |
| Goodwill <i>[note 24]</i> | 33,950 | 31,547 |
| Restricted cash | 291 | 268 |
| Other assets | 192 | 308 |
| TOTAL ASSETS | 156,654 | 134,315 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities <i>[note 20]</i> | 19,045 | 14,671 |
| Dividends payable <i>[note 13]</i> | 1,208 | 896 |
| Income taxes payable | 278 | 73 |
| Deferred revenue | 3,600 | 3,779 |
| Current portion of provisions <i>[notes 10 and 20]</i> | 1,053 | 1,391 |
| Current portion of long term debt <i>[note 11]</i> | 1,498 | 1,350 |
| | 26,682 | 22,160 |
| Deferred tax liabilities <i>[note 16]</i> | 4,220 | 4,075 |
| Long term portion of provisions <i>[notes 10 and 20]</i> | 1,253 | 936 |
| Long term debt <i>[note 11]</i> | 1,103 | 2,386 |
| TOTAL LIABILITIES | 33,258 | 29,557 |
| Shareholders' equity | | |
| Share capital <i>[note 14]</i> | 76,592 | 74,846 |
| Contributed surplus <i>[note 15]</i> | 2,568 | 2,301 |
| Accumulated other comprehensive income (loss) | 1,006 | (3,808) |
| Retained earnings | 43,230 | 31,419 |
| TOTAL SHAREHOLDERS' EQUITY | 123,396 | 104,758 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 156,654 | 134,315 |

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) | 2014 \$ | 2013 \$ |
|---|----------------|------------|
| Revenue | 170,835 | 161,704 |
| Manufacturing and selling costs <i>[note 6]</i> | 136,375 | 128,222 |
| Gross profit | 34,460 | 33,482 |
| General and administration | 9,076 | 8,552 |
| Foreign exchange gain | (1,008) | (46) |
| Depreciation and amortization <i>[notes 7 and 8]</i> | 3,748 | 3,991 |
| Finance expense <i>[note 19]</i> | 383 | 446 |
| Loss on disposal of property, plant and equipment | 50 | 106 |
| | 12,249 | 13,049 |
| Income before income taxes | 22,211 | 20,433 |
| Income tax expense (recovery) <i>[note 16]</i> | | |
| Current | 5,923 | 6,741 |
| Deferred | (28) | (693) |
| | 5,895 | 6,048 |
| Net income | 16,316 | 14,385 |
| Earnings per share <i>[note 17]</i> | | |
| Basic | \$0.54 | \$0.49 |
| Diluted | \$0.54 | \$0.49 |

See accompanying notes

Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

For the years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|--|---------------|---------------|
| Net income | 16,316 | 14,385 |
| Translation of foreign operations | 4,814 | 4,219 |
| Total items that will be reclassified subsequently to net income | 4,814 | 4,219 |
| Comprehensive income | 21,130 | 18,604 |

Consolidated Statements of Shareholders' Equity

For the years ended December 31,

| (in thousands) | Common Shares # | Share Capital \$ | Contributed Surplus \$ | Accumulated Other Comprehensive Income (Loss) \$ | Retained Earnings \$ | Total \$ |
|---|-----------------------|------------------------|------------------------------|--|----------------------------|----------------|
| Balance, December 31, 2013 | 29,848 | 74,846 | 2,301 | (3,808) | 31,419 | 104,758 |
| Share-based payments [note 15] | — | — | 685 | — | — | 685 |
| Shares issued on exercise of stock options [notes 14 and 15] | 366 | 1,328 | — | — | — | 1,328 |
| Reclassification of fair value of stock options previously expensed [note 15] | — | 418 | (418) | — | — | — |
| Translation of foreign operations | — | — | — | 4,814 | — | 4,814 |
| Dividends declared [note 13] | — | — | — | — | (4,505) | (4,505) |
| Net income | — | — | — | — | 16,316 | 16,316 |
| Balance, December 31, 2014 | 30,214 | 76,592 | 2,568 | 1,006 | 43,230 | 123,396 |
| Balance, December 31, 2012 | 29,035 | 70,980 | 2,609 | (8,027) | 20,273 | 85,835 |
| Share-based payments [note 15] | — | — | 624 | — | — | 624 |
| Shares issued on exercise of stock options [notes 14 and 15] | 813 | 2,934 | — | — | — | 2,934 |
| Reclassification of fair value of stock options previously expensed [note 15] | — | 932 | (932) | — | — | — |
| Translation of foreign operations | — | — | — | 4,219 | — | 4,219 |
| Dividends declared [note 13] | — | — | — | — | (3,239) | (3,239) |
| Net income | — | — | — | — | 14,385 | 14,385 |
| Balance, December 31, 2013 | 29,848 | 74,846 | 2,301 | (3,808) | 31,419 | 104,758 |

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income from operations | 16,316 | 14,385 |
| Add (deduct) items not affecting cash: | | |
| Depreciation and amortization <i>[notes 7 and 8]</i> | 3,748 | 3,991 |
| Deferred tax recovery | (28) | (693) |
| Share-based compensation expense <i>[note 15]</i> | 685 | 624 |
| Loss on disposal of property, plant and equipment | 50 | 106 |
| Funds from operations | 20,771 | 18,413 |
| Changes in non-cash working capital: | | |
| (Increase) decrease in accounts receivable | (605) | 4,931 |
| Increase in inventories | (5,826) | (24) |
| (Increase) decrease in prepaid expenses | (190) | 95 |
| Increase (decrease) in accounts payable, accrued liabilities and provisions | 2,972 | (3,780) |
| (Decrease) increase in deferred revenue | (454) | 134 |
| Increase (decrease) in income taxes payable | 645 | (1,877) |
| Total changes in non-cash working capital | (3,458) | (521) |
| Cash flows from operating activities | 17,313 | 17,892 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of common shares on the exercise of stock options <i>[notes 14 and 15]</i> | 1,328 | 2,934 |
| Dividends paid <i>[note 13]</i> | (4,193) | (2,923) |
| Repayment of long term debt | (1,415) | (1,350) |
| Cash flows used in financing activities | (4,280) | (1,339) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment <i>[note 7]</i> | (4,346) | (3,010) |
| Disposal of property, plant and equipment | 597 | 125 |
| Purchase of intangible assets <i>[note 8]</i> | (26) | (80) |
| Cash flows used in investing activities | (3,775) | (2,965) |
| Foreign exchange gain on cash held in foreign currency | 249 | 448 |
| Increase in cash and cash equivalents | 9,507 | 14,036 |
| Cash and cash equivalents, beginning of the year | 18,882 | 4,846 |
| Cash and cash equivalents, end of the year | 28,389 | 18,882 |

See accompanying notes

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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 5, 2015.

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 of disposal and value in use. The Company estimates the recoverable amount by using the fair value less costs of disposal approach. It estimates fair value using an income approach based on discounted after-tax cash flow projections and validated by using a market approach, deriving market multiples from comparable public companies and comparable company transactions. Costs for disposing the asset are deducted to derive fair value less costs of disposal. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows 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 24.

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;

Notes to the Consolidated Financial Statements

- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

The amount initially recognized for internally developed intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally developed intangible asset can be recognized, development expenditures are recognized as an expense in the period in which they are incurred. Subsequent to initial recognition, internally developed intangible assets are reported at cost less accumulated 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 costs 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 on Petroleum tanks, 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. Effective January 31, 2015, the Company ceased offering the Canadian Prezerver program due to changing market conditions.

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, 2014 and 2013, the Company did not have any held to maturity investments on the consolidated balance sheets.

Available for sale financial instruments:

As at December 31, 2014 and 2013, 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, 2014 and 2013, 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 15.

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

As a lessor:

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

4. NEW ACCOUNTING STANDARDS

During the year, the Company applied certain standards and amendments that did not significantly impact the consolidated financial statements of the Company. These include Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32, Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39, Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 and IFRIC 21 Levies.

Standards issued but not yet effective:

The listing below includes standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective. The Company is in the process of analysing the impact of these standards on the statement of financial position and results of operations of the Company:

- In December 2013, the IASB issued Annual Improvements (2010-2012 Cycle) to make necessary but non-urgent amendments to IFRS 2 Share-based Payments; IFRS 3 Business Combinations (IFRS 3); IFRS 8 Operating Segments; IFRS 13 Fair Value Measurement (IFRS 13); IAS 16 Property, Plant, and Equipment; IAS 24 Related Party Disclosures; and IAS 38 Intangible Assets. These amendments are effective for annual periods beginning on or after July 1, 2014.
- In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15). IFRS 15 applies to all revenue contracts with customers and provides a model for the recognition and measurement of the sale of some non-financial assets such as property, plant, and equipment and intangible assets. This new standard sets out a five-step model for revenue recognition and applies to all industries. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services. IFRS 15 requires numerous disclosures, such as the disaggregation of total revenue, disclosures about performance obligations, changes in contract asset and liability account balances, and key judgments and estimates. This new standard, effective January 1, 2017, may be adopted using a full retrospective or modified retrospective approach.
- In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9) to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. In addition, it includes a single expected-loss impairment model and a reformed approach to hedge accounting. This standard is effective January 1, 2018, on a retrospective basis subject to certain exceptions.
- In September 2014, the IASB issued Annual Improvements (2012-2014 Cycle) to make necessary but non-urgent amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 Financial Instrument: Disclosures (IFRS 7); and IAS 34 Interim Financial Reporting. These amendments are effective January 1, 2016, on a retrospective basis with the exception of IAS 34 which is effective on a prospective basis.

Notes to the Consolidated Financial Statements

- In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1). It provides amended guidance on materiality and on the order of the notes to the financial statements. These amendments can be applied immediately, and become mandatory for periods beginning on or after January 1, 2016.

5. INVENTORIES

| As at | December 31, 2014 | December 31, 2013 |
|---------------------------|----------------------|----------------------|
| (in thousands of dollars) | \$ | \$ |
| Raw materials | 11,729 | 9,989 |
| Work in progress | 6,097 | 3,107 |
| Finished goods | 13,202 | 10,714 |
| | 31,028 | 23,810 |

During the year ended December 31, 2014 there was a write-down of \$68,000 (December 31, 2013 - \$56,000) of inventory to its net realizable value.

6. MANUFACTURING AND SELLING COSTS

For the years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---|----------------|----------------|
| Raw materials and consumables used | 57,961 | 51,617 |
| Labour costs | 31,520 | 29,753 |
| Other costs | 52,372 | 47,084 |
| Net change in inventories of finished goods and work in progress | (5,478) | (232) |
| | 136,375 | 128,222 |

A reclassification between raw materials and consumables used and other costs was performed for the comparative year in order to conform to the current year's classification and presentation.

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 \$ |
|---------------------------------|--------------|-----------------|------------------|-------------------------------|------------------------|----------------------|---------------|
| Cost | | | | | | | |
| 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 |
| As at December 31, 2013 | 6,479 | 7,832 | 4,164 | 24,122 | 3,371 | 460 | 46,428 |
| Additions | — | 474 | 459 | 2,938 | 336 | 139 | 4,346 |
| Disposals | (221) | (702) | — | (456) | (137) | (97) | (1,613) |
| Foreign exchange | 2 | 109 | 192 | 808 | 80 | 33 | 1,224 |
| As at December 31, 2014 | 6,260 | 7,713 | 4,815 | 27,412 | 3,650 | 535 | 50,385 |
| Accumulated Depreciation | | | | | | | |
| 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 |
| As at December 31, 2013 | — | 2,255 | 2,214 | 11,749 | 2,784 | 172 | 19,174 |
| Depreciation | — | 209 | 401 | 1,358 | 375 | 79 | 2,422 |
| Disposals | — | (76) | — | (374) | (137) | (28) | (615) |
| Foreign exchange | — | 25 | 77 | 127 | 13 | 19 | 261 |
| As at December 31, 2014 | — | 2,413 | 2,692 | 12,860 | 3,035 | 242 | 21,242 |
| Carrying Amount | | | | | | | |
| As at December 31, 2013 | 6,479 | 5,577 | 1,950 | 12,373 | 587 | 288 | 27,254 |
| As at December 31, 2014 | 6,260 | 5,300 | 2,123 | 14,552 | 615 | 293 | 29,143 |

Capital work in progress of \$655,000 (December 31, 2013 - \$306,000) is included above and not subject to depreciation. Included in this figure is \$622,000 for manufacturing equipment and \$33,000 in leasehold improvements.

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS

| (in thousands of dollars) | Customer Relationships \$ | Brands \$ | Internally Developed ERP Software \$ | Other \$ | Total \$ |
|---------------------------------|---------------------------------|--------------|--|--------------|---------------|
| Cost | | | | | |
| As at December 31, 2012 | 6,413 | 3,526 | 3,239 | 4,666 | 17,844 |
| Additions | — | — | 80 | — | 80 |
| Foreign exchange | 433 | 213 | 122 | 71 | 839 |
| As at December 31, 2013 | 6,846 | 3,739 | 3,441 | 4,737 | 18,763 |
| Additions | — | — | — | 26 | 26 |
| Foreign exchange | 555 | 273 | 156 | 91 | 1,075 |
| As at December 31, 2014 | 7,401 | 4,012 | 3,597 | 4,854 | 19,864 |
| Accumulated Amortization | | | | | |
| 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 |
| As at December 31, 2013 | 6,442 | 2,649 | 1,263 | 3,475 | 13,829 |
| Amortization | 190 | 421 | 350 | 365 | 1,326 |
| Foreign exchange | 534 | 203 | 73 | 80 | 890 |
| As at December 31, 2014 | 7,166 | 3,273 | 1,686 | 3,920 | 16,045 |
| Carrying Amount | | | | | |
| As at December 31, 2013 | 404 | 1,090 | 2,178 | 1,262 | 4,934 |
| As at December 31, 2014 | 235 | 739 | 1,911 | 934 | 3,819 |

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, 2014 and December 31, 2013. 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, 2016 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, 2014, 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, 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 |
| As at December 31, 2013 | 939 | 936 | 452 | 2,327 |
| Amounts used against the provision | (635) | — | (121) | (756) |
| Additional (reversal of) provision | 460 | 220 | (106) | 574 |
| Foreign exchange | 42 | 97 | 22 | 161 |
| As at December 31, 2014 | 806 | 1,253 | 247 | 2,306 |

Of the \$2,306,000 (2013 - \$2,327,000) in provisions described above, the Company expects \$1,053,000 (2013- \$1,391,000) to settle within 12 months of the balance sheet date. The remaining \$1,253,000 (2013 - \$936,000) 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 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, 2014 | December 31, 2013 |
|---------------------------|----------------------|----------------------|
| (in thousands of dollars) | \$ | \$ |
| Term loan | 2,601 | 3,736 |
| Total long term debt | 2,601 | 3,736 |
| Less current portion | 1,498 | 1,350 |
| | 1,103 | 2,386 |

Excluding financing costs, the principal balance of the term loan as at December 31, 2014 is \$2,253,000 US dollars (December 31, 2013 – \$3,521,000 US dollars) which is a reasonable estimate of its fair value.

The term loan requires monthly interest payments and quarterly principal repayments of \$322,000 US dollars, with the balance due on maturity on May 31, 2016. The interest charged on the loan is US LIBOR rate plus 225 basis points (effective rate of 2.42% as at December 31, 2014). 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, unless waived by the Company's bank.

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, 2014 is \$11,673,000.

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 20.

12. COMMITMENTS

Lease Commitment

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

| (in thousands of dollars) | \$ |
|---------------------------|---------------|
| 2015 | 2,517 |
| 2016 | 1,962 |
| 2017 | 1,553 |
| 2018 | 1,126 |
| 2019 | 776 |
| Thereafter | 3,292 |
| | 11,226 |

Other Contractual Obligations

The Company has provided a letter of credit in the amount of \$0.3 million (2013 - \$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 \$1.0 million (2013 - \$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, 2014, the issued performance letters of credit totalled \$0.5 million (2013 - \$1.4 million).

Notes to the Consolidated Financial Statements

13. DIVIDENDS

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

| 2014 | | | | 2013 | | | |
|------------------|-----------|----------------------|----------|------------------|-----------|----------------------|----------|
| Declared | Per share | Paid to shareholders | Total \$ | Declared | Per share | Paid to shareholders | Total \$ |
| March 7, 2014 | \$0.035 | April 15, 2014 | 1,048 | March 7, 2013 | 0.025 | April 15, 2013 | 729 |
| May 5, 2014 | \$0.035 | July 15, 2014 | 1,049 | May 3, 2013 | 0.025 | July 15, 2013 | 729 |
| August 5, 2014 | \$0.040 | October 15, 2014 | 1,200 | August 8, 2013 | 0.030 | October 15, 2013 | 885 |
| November 3, 2014 | \$0.040 | January 15, 2015 | 1,208 | November 7, 2013 | 0.030 | January 15, 2014 | 896 |
| | \$0.150 | | 4,505 | | 0.110 | | 3,239 |

For the years ended December 31,

| | 2014 \$ | 2013 \$ |
|------------------------------|------------|------------|
| Payable, beginning of period | 896 | 580 |
| Declared | 4,505 | 3,239 |
| Paid in cash | (4,193) | (2,923) |
| Payable, end of period | 1,208 | 896 |

On March 5, 2015, the Company's Board of Directors declared a dividend of \$0.045 per common share to be paid on April 15, 2015 to the shareholders of record as of March 31, 2015.

14. SHARE CAPITAL

Authorized

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

Issued and outstanding

During the year ended December 31, 2014, the Company issued 365,543 (2013 – 812,917) common shares at an average rate of \$3.63 per share for stock options exercised resulting in cash proceeds to the Company of \$1,328,000 (2013 - \$2,934,000). As at December 31, 2014, the Company had 30,213,462 common shares outstanding (December 31, 2013 – 29,847,919).

15. 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.

Notes to the Consolidated Financial Statements

As at December 31, 2014, the Company has 1,516,716 (2013 – 1,929,261) 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, 2014, 1,051,999 (2013 – 796,360) 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,

| | 2014 | | 2013 | |
|----------------------------|-----------------|------------------------------------|-----------------|------------------------------------|
| | Stock options # | Weighted average exercise price \$ | Stock options # | Weighted average exercise price \$ |
| Balance, as at January 1 | 1,929,261 | 4.56 | 2,424,349 | 3.74 |
| Granted | — | — | 444,000 | 7.09 |
| Exercised | (365,543) | 3.63 | (812,917) | 3.61 |
| Forfeited | (47,002) | 4.42 | (126,171) | 3.72 |
| Expired | — | — | — | — |
| Balance, as at December 31 | 1,516,716 | 4.79 | 1,929,261 | 4.56 |

| Exercise Price \$ | 2014 | | | | |
|-------------------|---------------------|------------------------------------|--|-----------------|------------------------------------|
| | 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 | 20,900 | 3.87 | .02 | 20,900 | 3.87 |
| 4.09 | 16,400 | 4.09 | .19 | 16,400 | 4.09 |
| 3.05 | 217,603 | 3.05 | 1.19 | 217,603 | 3.05 |
| 3.23 | 2,501 | 3.23 | 1.40 | 2,501 | 3.23 |
| 3.15 | 340,739 | 3.15 | 1.93 | 340,739 | 3.15 |
| 4.72 | 482,573 | 4.72 | 2.93 | 307,224 | 4.72 |
| 7.09 | 436,000 | 7.09 | 3.93 | 146,632 | 7.09 |
| 3.05 – 7.09 | 1,516,716 | 4.79 | 2.68 | 1,051,999 | 4.17 |

| Exercise Price \$ | 2013 | | | | |
|-------------------|---------------------|------------------------------------|--|-----------------|------------------------------------|
| | 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 | — | — |
| 3.05 – 7.09 | 1,929,261 | 4.56 | 3.34 | 796,360 | 3.66 |

Notes to the Consolidated Financial Statements

No options were granted during the year ended December 31, 2014. 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, 2014, 365,543 stock options (2013 – 812,917) were exercised with a weighted average exercise price of \$3.63 (2013 – \$3.61) resulting in cash proceeds to the Company of \$1,328,000 (2013 – \$2,934,000). Compensation expense previously included in contributed surplus of \$418,000 (2013 – \$932,000) 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, 2014, share-based compensation expense of \$685,000 (2013 - \$624,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income.

No stock options were issued during the year ended December 31, 2014. The estimated fair values of stock options granted during the year ended December 31, 2013 were 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.

| | 2014 | 2013 |
|---|------|------|
| Risk-free interest rate (%) | n/a | 1.4 |
| Expected hold period to exercise (years) | n/a | 3.9 |
| Volatility in the price of the Company's shares (%) | n/a | 35.7 |
| Forfeiture rate (%) | n/a | 5.0 |
| Dividend yield (%) | n/a | 1.7 |

The expected hold period, volatility, forfeiture rate and dividend yield are based on management's judgments in regard to the Company's past history and expectations for the future.

16. INCOME TAXES

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

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---|--------------|--------------|
| Net income before tax | 22,211 | 20,433 |
| Statutory federal and provincial taxes at 25.50% (2013 – 25.51%) | 5,664 | 5,213 |
| Increase (decrease) in income taxes resulting from: | | |
| Rate differences for foreign jurisdictions | 1,216 | 1,426 |
| Effect of permanent differences | (802) | (765) |
| Non-taxable foreign income, other tax exempt income and other items | (183) | 174 |
| At the effective income tax rate of 26% (2013 – 30%) | 5,895 | 6,048 |

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

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|--|--------------|--------------|
| Balance, beginning of the year | 4,075 | 4,597 |
| Tax recovery during the year recognized in net income | (28) | (693) |
| Tax expense during the year recognized in other comprehensive income | 173 | 171 |
| At the effective income tax rate of 26% (2013 – 30%) | 4,220 | 4,075 |

Notes to the Consolidated Financial Statements

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

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---|--------------|--------------|
| Property, plant and equipment | 3,598 | 3,186 |
| Land | 343 | 343 |
| Intangible assets | 586 | 893 |
| Inventories | 317 | 360 |
| Refundable insurance premiums | 46 | 102 |
| Non-deductible reserves and accrued liabilities | (685) | (805) |
| Other | 15 | (4) |
| | 4,220 | 4,075 |

17. 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 years ended December 31,

| Numerator (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---|-------------|-------------|
| Net income | 16,316 | 14,385 |
| | 2014 | 2013 |
| Denominator (in thousands) | # | # |
| Weighted average shares outstanding - basic | 29,963 | 29,308 |
| Effect of dilutive securities: | | |
| Stock options | 416 | 399 |
| Weighted average shares outstanding - diluted | 30,379 | 29,707 |

18. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for \$90,000 (2013 - \$27,000) for the year ended December 31, 2014, included in the consolidated financial statements as cost of goods sold 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, 2014 included \$11,000 (December 31, 2013 - \$1,000) 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 years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|--------------------------------------|------------|------------|
| Salaries, benefits and director fees | 1,614 | 1,538 |
| Share-based payments | 303 | 252 |
| Total | 1,917 | 1,790 |

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

Notes to the Consolidated Financial Statements

and administrative expenses for the years ended December 31, 2014 and 2013. Share-based payments are the amount of expense recognized in the consolidated statements of income relating to the identified key management and directors.

19. FINANCE EXPENSE

For the years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---|------------|------------|
| Short term interest, net of interest income | 279 | 334 |
| Interest, long term obligations | 104 | 112 |
| | 383 | 446 |

20. 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, 2014 and 2013.

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, 2014 was prime plus 75 basis points, 3.75% (December 31, 2013 - prime plus 75 basis points, 3.75%), adjusted quarterly based on certain financial indicators of the Company. The effective interest rate on the term loan balance at December 31, 2014 was US LIBOR rate plus 225 basis points, 2.42% (December 31, 2013 – US LIBOR rate plus 225 basis points, 2.41%), 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 rates would have a minimal impact on the net income for the year ended December 31, 2014.

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 considers long term forecasts to assess the potential cash flow impact on the Company. During the year ended December 31, 2014, 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.

Notes to the Consolidated Financial Statements

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, 2014. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the period ("balance sheet exposure"), which are separated by domestic and foreign operations, and US dollar denominated revenue and operating expenses during the period ("operating exposure").

Balance sheet exposure as at December 31, 2014,

| (in thousands of US dollars) | Foreign Operations \$ | Domestic Operations \$ | Total \$ |
|--|-----------------------------|------------------------------|---------------|
| Cash and cash equivalents | 13,800 | 1,744 | 15,544 |
| Accounts receivable | 13,955 | 1,915 | 15,870 |
| Restricted cash | 250 | — | 250 |
| Accounts payable and accrued liabilities | (8,847) | (1,537) | (10,384) |
| Trade balances between foreign and domestic operations | (7,222) | 7,222 | — |
| Long term debt | — | (2,253) | (2,253) |
| Net balance sheet exposure | 11,936 | 7,091 | 19,027 |

Operating exposure for the year ended December 31, 2014,

| (in thousands of US dollars) | \$ |
|-------------------------------|---------------|
| Sales | 109,246 |
| Operating expenses | 93,243 |
| Net operating exposure | 16,003 |

The weighted average US to Canadian dollar translation rate was 1.10 for the year ended December 31, 2014. The translation rate as at December 31, 2014 was 1.16.

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, 2014,

| (in thousands of US dollars) | \$ |
|--|--------------|
| Net balance sheet exposure of other operations | 1,057 |
| Net operating exposure of foreign operations | 1,926 |
| Change in net income | 2,983 |

Other comprehensive income would have changed \$1,528,000 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.

Notes to the Consolidated Financial Statements

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, 2014, no customer exceeded 10% of the consolidated trade accounts receivable balance. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

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

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of \$27,066,000 as at December 31, 2014 (December 31, 2013 - \$24,723,000). On a geographic basis as at December 31, 2014, approximately 48% (December 31, 2013 - 22%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 52% (December 31, 2013 - 78%) was due from US customers. The change in geographic accounts receivable is mainly due to a disputed significant receivable existing on December 31, 2013 for \$3,927,000 USD that was settled at the beginning of 2014.

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,

| | 2014 | 2013 |
|-------------------------------|-------------|-------------|
| Current | 58% | 45% |
| Past due 1 to 30 days | 23% | 24% |
| Past due 31 to 60 days | 13% | 19% |
| Past due 61 to 90 days | 3% | 3% |
| Past due greater than 90 days | 3% | 9% |
| | 100% | 100% |

Despite the established payment terms, customers in the oil and gas industry, who represent a significant portion of the customer base for the Company, typically pay amounts within 60 days of the invoice date. Accordingly, it is management's view that amounts outstanding from these customers up to 60 days from the invoice date have a low risk of not being collected.

Included in the accounts receivable balance are balances not considered trade receivables of \$727,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2013 - \$360,000).

The Company had recorded an allowance for doubtful accounts of \$125,000 as at December 31, 2014 (December 31, 2013 - \$542,000). The allowance is an estimate of the December 31, 2014 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of \$129,000 (2013 - \$462,000), offset by payments of \$41,000 (2013 - \$2,000), write offs of \$528,000 (2013 - \$209,000) and a translation adjustment of \$23,000 (2013 - \$16,000) for the year ended December 31, 2014.

Notes to the Consolidated Financial Statements

d) Liquidity risk

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

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

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

| (in thousands of dollars) | Carrying Amount \$ | 2015 \$ | 2016 \$ | Thereafter \$ |
|--|--------------------------|---------------|--------------|------------------|
| Accounts payable, accrued liabilities and provisions | 21,176 | 19,923 | 1,253 | — |
| Dividends payable | 1,208 | 1,208 | — | — |
| Long term debt | 2,601 | 1,498 | 1,103 | — |
| Total | 24,985 | 22,629 | 2,356 | — |

e) 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.

21. STATEMENTS OF CASH FLOWS

For the years ended December 31,

| (in thousands of dollars) | 2014 \$ | 2013 \$ |
|---------------------------|--------------|--------------|
| Net interest paid | 373 | 452 |
| Income taxes paid | 5,701 | 8,922 |
| | 6,074 | 9,374 |

22. 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) | 2014 \$ | 2013 \$ |
|--|----------------|----------------|
| Current portion of long term debt <i>[note 11]</i> | 1,498 | 1,350 |
| Long term debt <i>[note 11]</i> | 1,103 | 2,386 |
| Total long term debt | 2,601 | 3,736 |
| Share capital | 76,592 | 74,846 |
| Contributed surplus | 2,568 | 2,301 |
| Retained earnings | 43,230 | 31,419 |
| Adjusted shareholders' equity | 122,390 | 108,566 |
| Adjusted capital employed | 124,991 | 112,302 |

Management considers changes in economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities in managing its capital and considers adjustments to its ratio of long term debt to adjusted capital employed when significant changes in these factors are expected. Management considers the ratio of long term debt to adjusted capital employed of 2% as at December 31, 2014 (December 31, 2013 – 3%) to be low. Adjusted capital employed is defined as long term debt plus total shareholders' equity excluding accumulated other comprehensive income (loss).

b) Debt management

Under its long term credit facilities, the Company must maintain a number of financial covenants on a quarterly basis. These covenants include, but are not limited to, a minimum shareholders' equity value, a debt to net tangible worth ratio and a fixed charge coverage 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, 2014 Actual | Dec 31, 2014 Required | Dec 31, 2013 Actual | Dec 31, 2013 Required |
|-----------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Minimum equity value | \$123 million | >\$50 million | \$105 million | >\$50 million |
| Debt to tangible net worth | 0.03 | <2.0 | 0.06 | <2.0 |
| Fixed charge coverage ratio | 4.0 | >1.5 | 5.8 | >1.5 |

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

Notes to the Consolidated Financial Statements

23. 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 years ended December 31,

| | Underground | | Aboveground | | Total | |
|---------------------------------|----------------|---------|---------------|--------|----------------|---------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| (in thousands of dollars) | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 139,087 | 121,692 | 31,748 | 40,012 | 170,835 | 161,704 |
| Manufacturing and selling costs | 108,859 | 96,241 | 27,516 | 31,981 | 136,375 | 128,222 |
| Gross profit | 30,228 | 25,451 | 4,232 | 8,031 | 34,460 | 33,482 |

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

| | Inventories | | Property, plant and equipment | | Intangible assets and goodwill | |
|---------------------------------|---------------|--------------|-------------------------------|--------------|--------------------------------|--------------|
| | Dec 31, 2014 | Dec 31, 2013 | Dec 31, 2014 | Dec 31, 2013 | Dec 31, 2014 | Dec 31, 2013 |
| As at (in thousands of dollars) | \$ | \$ | \$ | \$ | \$ | \$ |
| Underground | 26,442 | 20,874 | 23,689 | 21,197 | 34,297 | 32,735 |
| Aboveground | 4,586 | 2,936 | 5,454 | 6,057 | 3,472 | 3,746 |
| Total | 31,028 | 23,810 | 29,143 | 27,254 | 37,769 | 36,481 |

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 years ended December 31, 2014 and 2013, no single customer exceeded 10% of total revenue.

Notes to the Consolidated Financial Statements

c) Information about geographic areas

For the years ended December 31,

| | Revenues | | | |
|---------------------------|----------------|--|----------------|--|
| | 2014 | | 2013 | |
| (in thousands of dollars) | \$ | | \$ | |
| Canada | 56,101 | | 56,454 | |
| United States | 110,969 | | 102,135 | |
| International | 3,765 | | 3,115 | |
| | 170,835 | | 161,704 | |

| | Total assets | | Property, plant and equipment, intangible assets and goodwill | |
|---------------------------|----------------|----------------|---|---------------|
| | Dec 31, 2013 | Dec 31, 2013 | Dec 31, 2014 | Dec 31, 2013 |
| (in thousands of dollars) | \$ | | \$ | |
| Canada | 62,552 | 54,893 | 25,577 | 24,825 |
| United States | 90,377 | 76,562 | 40,417 | 37,803 |
| International | 3,725 | 2,860 | 918 | 1,107 |
| | 156,654 | 134,315 | 66,912 | 63,735 |

24. 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, 2014 | Oct 1, 2013 | Oct 1, 2014 | Oct 1, 2013 | Oct 1, 2014 | Oct 1, 2013 |
| (in thousands of dollars) | \$ | | \$ | | \$ | |
| Goodwill | 1,377 | 1,377 | 28,720 | 25,319 | 2,641 | 2,641 |

The Company performed its annual goodwill impairment test as at October 1, 2014. 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, 2014, 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.

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, 2014 figures above may differ from the October 1, 2013 carrying amount, along with the year end December 31, 2013 and 2014 carrying amounts.

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 (11.7% to 12.5%), Underground US (13.6% to 14.4%) and Aboveground (23.6% to 24.4%).

Growth rate estimates:

Growth rates for beyond 2014 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 2014 operating budget and the Strategic Plan were calculated using current prospects and 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 48% in the worst case scenario before a deficiency would be created. For the Underground US CGU, the specific risk premium would need to increase 83% and with the Aboveground CGU, the specific risk premium would need to increase 25% 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 92% of our current expectations; the Underground US CGU would have to fall to 86%; and the gross profit for the Aboveground CGU would have to fall to 92% of its current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2014, the total recoverable amount of the Company's CGUs exceeded their carrying amounts.

CORPORATE INFORMATION

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 & Special Meeting

1:30 p.m. on Friday, May 8, 2015
at The Sandman Signature Edmonton South
in The Great Room 3
10111 Ellerslie Road SW
Edmonton, Alberta
Canada T6X 0J3

Corporate Office

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

Common Shares Outstanding

As of March 5, 2015
Total outstanding: 30,245,828

Investor Relations

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

Transfer Agent & Registrar

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Calgary, Alberta
Canada T2P 2Z1

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



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