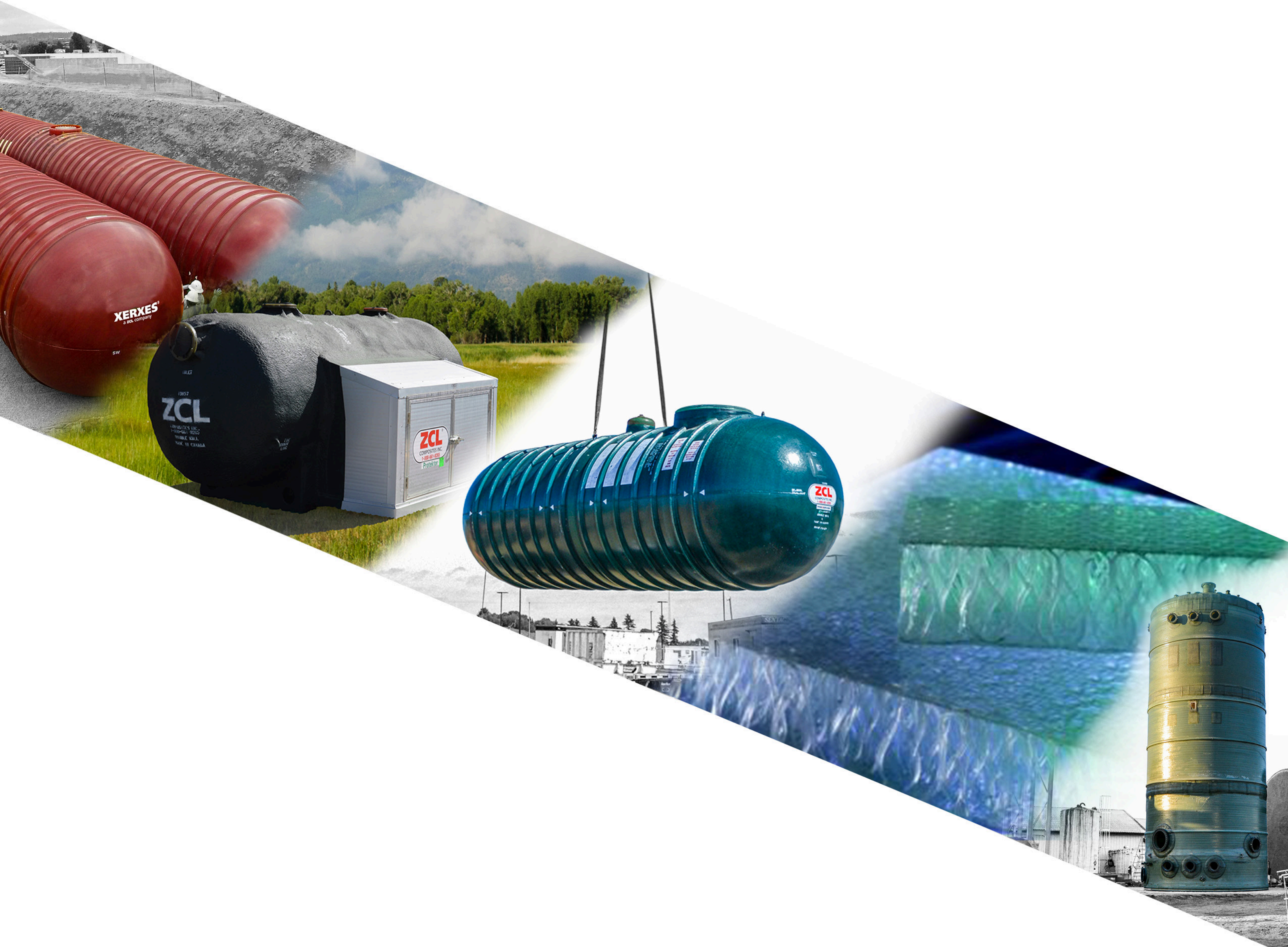
COMPOSITES INC.

Annual Report 2015

making a lasting difference®

Our Mission

To deliver piece of mind through corrosion resistant solutions that preserve and protect the environment.



ZCL® XERXES® a ZCL company ZCL CORROSION® a ZCL company ZCL DUALAM® a ZCL company ZCL TROY® a ZCL company PARABEAM® a ZCL company

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Message to Shareholders-Q4 2015

ZCL delivered another successful year in 2015. In a year in which certain of our markets experienced some of the most challenging economic conditions ever encountered, we posted record revenue of $185.7 million, a 9% increase over 2014. This performance was led by our Underground operating segment which grew by 16%, and both Petroleum Products and Water Products achieved record annual revenues. We also achieved increases in gross profit and gross margin in our largest revenue source, the Underground operating segment, with Underground gross margins increasing for the fifth consecutive year. Our balance sheet remained strong and we recorded a return on capital employed ratio of 26%.

Strategic Review and Value Enhancing Initiatives

During the fourth quarter of 2015, we completed our annual review of ZCL's strategic plan, including a comprehensive review of our capital allocation program. To address current and expected changes in our markets, we plan to allocate the majority of our resources to our largest revenue source, being the Underground operating segment, which accounted for 87**%** of our revenues in 2015. This segment remains strong and gives us the ability to grow and remain profitable.

As a further result of this strategic review, the Company has determined it is prudent to maintain a strong balance sheet to provide the flexibility to take advantage of opportunities as they arise. However, we do not currently require all of the cash on our balance sheet to support operations and execute on our strategic plan. Therefore, due to the strength of both our business and our balance sheet, ZCL's board has decided to significantly increase its distribution to shareholders through two initiatives. First, a one-time special dividend of $0.50 per share. Second, an increase of our quarterly dividend by 60% to $0.08 per share. The increase in our quarterly dividend is a reflection of our confidence in our ability to generate future funds from operations.

In addition, ZCL will continue our NCIB at the TSX maximum allowed amount of 5% of our outstanding shares (or approximately 1.5 million shares). We intend to be active in buying back our shares, but only when the right value opportunities arise.

2016 Outlook

ZCL expects continued revenue growth in 2016 in the Petroleum and Water product groups; however, this will be partially offset by flat or lower revenues in the Aboveground operating segment due to continued low energy prices. For the first quarter of 2016, we anticipate the Underground operating segment will generate seasonally strong results, partially offset by low revenue and a negative margin in our Aboveground operating segment and increased general and administrative expenses due to higher professional fees. Over the last five years, ZCL has generated compound annual growth rates in revenue and earnings of 10% and we expect to sustain this performance going forward, although achievement of these growth rates in any individual year is not assured.

We believe our downstream Petroleum Products group has a long term compound annual organic growth rate in the high single digits, supported by three key dynamics: (1) the larger U.S. retail petroleum marketers continue to expand as they compete for market share, (2) the aging of the installed tank base leading to an increased rate of tank replacement, and (3) ZCL's FRP tanks continued market share gains over steel tanks. While the retail petroleum market in Canada is encountering slower activity levels due to reductions in capital spending by the integrated major oil companies that control the purchasing decisions in this market, our much larger U.S. retail petroleum market does not have the same capital spending constraints. Spending decisions in the U.S. are dominated by petroleum retailers who are enjoying higher volumes, higher margins, and higher cash flows in the low energy price environment; these customers have plenty of capital available for investment.

Similarly, we believe that the Water Products group of our Underground operating segment will be able to achieve long term compound annual organic growth rates in the 10%-20% range. Growing awareness of water as the next scarce resource, and the recognition of water as an economic input that is increasing in value, are leading to water conservation initiatives that increasingly include our storage tanks as part of the solution. The gradually improving construction markets across North America, and the evolving regulatory environment pertaining to water usage and water quality, will further support our anticipated growth in the Water Products market.

Longer term opportunities

We also believe that we have longer term opportunities to organically grow our Aboveground segment in the +10% range annually. However, this part of our business is quite cyclical as much of it is directly linked to global energy prices and associated capital spending levels in the broad industrial markets. Although we do not expect revenues in this segment to increase in 2016, we believe revenues will start to recover over the next 12 to 24 months and we have decided to maintain our presence in the Aboveground markets. This strategy provides us with the best opportunity to take advantage of a recovery in the Aboveground end markets as they occur.

Operational improvements

Operationally, we have delivered improvements that translated into five consecutive years of increases in gross margins in our largest revenue source, the Underground operating segment. We believe we have some runway left for additional gross margin improvements in both our Underground and Aboveground segments, albeit most likely with declining marginal returns. We believe that we can achieve both Underground and Aboveground operational gains within our expected capital expenditures of approximately $5 million annually.

We are also keenly focused on expense management initiatives. In reaction to lower levels of activity within our Aboveground segment, we have closed our Montreal, QC facility (consolidating its operations with our Brockville, ON plant), we have made overhead and

salaried staff reductions in all Aboveground facilities, and we have implemented job sharing programs for our hourly workers in certain markets where those programs are available.

Additionally, as recently announced, we have appointed Rene Aldana as our Chief Operating Officer, effective January 19, 2016. Rene is a strong and experienced operator, and this strengthening of our management team will allow us to continue to pursue greater efficiency gains and profitable growth.

These steps will allow ZCL to reward our shareholders who have demonstrated patience in what ZCL has successfully achieved, while we retain the flexibility to grow our revenues and earnings and diligently pursue even greater shareholder value creation over the longer term.

I would like to extend my sincere personal gratitude and thanks to all of ZCL's dedicated employees for their contributions throughout 2015, for without them none of ZCL's success would have been possible. I also want to thank the ZCL board and our shareholders for your continued support. We look forward to our next communication in early May when we will report our first quarter 2016 results. Additionally, we look forward to seeing as many of our shareholders as possible at our upcoming Annual General Meeting of Shareholders in Edmonton on May 5, 2016.

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, 2015, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2015. 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 2, 2016.

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 five 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 also supplies tanks for pipelines (midstream petroleum markets) and for oil and gas exploration companies (upstream petroleum 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 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

ZCL delivered another successful year in 2015. In a year in which certain of our markets experienced some of the most challenging conditions ever encountered, we posted record revenue of $185.7 million, a 9% increase over 2014. We also achieved increases in gross profit and gross margin in our largest revenue source, the Underground operating segment, aided by a strong US dollar. These gains more than offset difficult market conditions for our Aboveground operating segment, particularly in the Oil Sands where we recorded significantly declining revenues and negative gross margins. Our balance sheet remained strong, with working capital of $76.8 million and a net cash balance position of $39.1 million. Return on capital employed also remained strong at 26%.

During the fourth quarter of 2015, the Company completed its annual review of the strategic plan which included a comprehensive review of our capital allocation program. To address current and expected changes in our markets, we plan to allocate the majority of our resources to our largest revenue source, being the Underground operating segment, which accounted for 87% of our revenues in 2015. This segment remains strong and gives us the ability to continue to grow and remain profitable.

As a result of our strategic discussions, we have decided to maintain our presence in the Aboveground operating segment. Although we do not expect revenues in this segment to increase in 2016, we believe revenues will start to recover over the next 12 to 24 months. This strategy provides us with the best opportunity to take advantage of a recovery in the Aboveground end markets as they occur.

As part of this strategy, the Company has determined it is prudent to maintain a strong balance sheet to provide the flexibility to take advantage of opportunities as they arise. However, we do not currently require all of the cash on our balance sheet to support operations and execute on our strategy. Therefore, due to the strength of both our business and our balance sheet, ZCL's board has decided to significantly increase its distribution to shareholders through two initiatives. First, a one-time special dividend of $0.50 per share. Second, an increase of our quarterly dividend by 60% to $0.08 per share. The increase in our quarterly dividend is a reflection of our confidence in our ability to generate future funds from operations.

Financial Results

Revenue

Revenue for the year ended December 31, 2015 was a record $185.7 million, up $14.8 million or 9% from $170.8 million for the year ended December 31, 2014. The Underground operating segment grew 16% and both Petroleum Products and Water Products achieved record annual revenues and benefited from a positive impact on the conversion of US dollar revenue to Canadian dollars for reporting purposes. The Aboveground operating segment revenue was down 21% from 2014.

Gross Profit

Gross profit for the year ended December 31, 2015 was $33.2 million, down $1.3 million or 4% from $34.5 million a year earlier. Gross margin was 18% of revenue for 2015, down from 20% a year earlier. Decreases experienced in the Aboveground margin more than offset margin increases in the Underground operating segment. Gross margin in the Underground operating segment increased for the fifth consecutive year.

Net Income

Net income before certain one-time impairment charges and costs associated with the plant closure in Montreal was $16.2 million compared to $16.3 million a year earlier, resulting in earnings per share of $0.53, compared to $0.54 a year earlier.

Net income for the year ended December 31, 2015 was $13.0 million, down $3.3 million or 20% from $16.3 million a year earlier. Net income per diluted share for 2015 was $0.43, down $0.11 or 20% from $0.54 per diluted share a year earlier.

Impairment of Assets

As previously disclosed, during the third quarter of 2015, the Company performed an impairment analysis on the Aboveground operating segment due to the near term low activity levels and resulting low profitability. As a result, in our third quarter disclosure we recorded a $2.7 million impairment charge against the carrying value of goodwill, reducing the remaining balance of Aboveground operating segment goodwill to $nil. In addition, in our third quarter disclosure we recorded an equipment impairment charge of $0.2 million against the carrying costs of equipment relating to the decommissioning of the Montreal manufacturing facility, as discussed later in the outlook section. There were no further impairments in the fourth quarter of 2015.

The impairment to goodwill and equipment is a non-cash accounting adjustment and has no on-going impact to the business.

Net Cash

As at December 31, 2015, ZCL had a net cash and cash equivalents (“net cash”) balance of $39.1 million compared to $21.8 million as at September 30, 2015 and $26.1 million as at December 31, 2014.

Value Enhancing Initiatives

Given the significant net cash balance of $39.1 million at the end of 2015, we have elected to make some changes to our capital allocation strategy. These changes are supported by our proven historical ability over the past three years to generate funds from operations between $18.4 million and $20.8 million annually, without the need for significant re-investment in maintenance capital.

The Company maintains cash and cash equivalents of approximately $10 million in order to effectively manage its self-insurance obligations and fund the operational needs in foreign jurisdictions. The complexities of running international operations results in challenges obtaining debt outside of North America and therefore these operations are financed through cash.

With our December 31, 2015 net cash position of almost $40 million, reflecting ZCL’s strong performance in recent years, the Board has decided to declare a special dividend of $0.50 per share, or approximately $15 million in total, to be paid out on March 31, 2016, to the shareholders of record as of March 15, 2016.

Additionally, the Board declared a 60% increase in our quarterly dividend to $0.08 per share, up from $0.05 per share previously, to be paid on April 15, 2016, to the shareholders of record as of March 31, 2016. The Board decided to increase the quarterly dividend due to confidence in our ability to deliver funds from operations. Increases to distributions will be dependent upon the future outlook.

Normal Course Issuer Bid

ZCL plans to continue our Normal Course Issuer Bid (“NCIB”), subject to TSX approval, at the TSX maximum allowed amount of 5% of our outstanding shares (approximately 1.5 million shares) and we intend to be opportunistic in buying back our shares.

Backlog

($millions)	Underground	Aboveground	Dec 31
2015	**38.4**	**1.2**	**39.6**
2014	21.4	9.6	31.0
% change	79%	(88%)	28%

As of December 31, 2015, backlog was $39.6 million, up $8.6 million or 28% from $31.0 million a year earlier. The overall increase is attributable to the Underground Products group and a positive foreign exchange impact of US dollar denominated backlog, partially offset by a decrease in the Aboveground Products group backlog.

In the Underground operating segment, backlog of $38.4 million was up $17.0 million or 79% compared to the same period in 2014. Both the Canadian and US operations saw significant increases in backlog relative to the prior year on a source currency basis. Canadian backlog was up 83% over the prior year and in the US, Underground operating segment backlog was up $8.6 million or 49% over the prior year prior to translation to Canadian dollars for reporting purposes which further boosted the increase by $7.3 million.

Both Water and Petroleum Products groups contributed to the increase in Underground backlog with Petroleum being the biggest contributor. Petroleum backlog was up $16.6 million or 94% over the prior year and Water backlog was up $0.4 million or 10%. The increase in Petroleum backlog is driven almost entirely out of the US where we continue to see a strong increase in demand for our products as retail petroleum marketers are benefiting from declining oil prices which drive higher retail profitability. The increase in Water backlog is primarily due to the translation of US dollar denominated orders to Canadian dollars for reporting purposes. On a source currency basis, Water Products backlog is consistent year over year.

In the Aboveground operating segment, backlog is down significantly compared to a year earlier. Our Oil Sands customer backlog was very low at the end of December 2015 with only a few orders in backlog. Contributing to the decrease is a $1.2 million order that has been postponed indefinitely by one of our customers, and

although the order has not been cancelled, we have removed it from our Aboveground backlog. Backlog from Industrial Corrosion markets and field services were down $4.2 million compared to the prior year due to lower activity in both the Oil Sands and industrial markets.

Compared to the September 30, 2015 backlog of $50.6 million, the December 31, 2015 backlog decreased by $11.0 million or 22%. The decrease was attributable to both the Underground and Aboveground operating segments. The Underground segment was down $6.2 million or 14% due to normal seasonal fluctuations in our Underground operations and due to the fact that Canadian pre-orders of $6.6 million were received in early 2016 as opposed to traditionally being received in December of the preceding year. In fact, backlog at January 31, 2016 was $48.3 million, with the bulk of the increase over December 31, 2015 derived from the Petroleum Products group, which was $42.5 million.

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.

Capital Allocation & Value Enhancing Initiatives

ZCL has developed a consistently profitable, high free cash flow business model and will continue to act in a measured and strategic manner when it comes to investing and distributing our capital. The key levers of our capital allocation strategy are:

1. Fund all organic growth opportunities that meet the objectives of our strategic plan.

2. Continue to evaluate and pursue opportunities to grow through mergers and acquisitions.

3. Continue to distribute cash to shareholders in the form of dividends.

2016 Capital Investment Plan

In addition to continuing to generate organic revenue growth, we still have some room for improvement left in our drive to advance our operational execution and increase our margins. Although we have already attained significant improvements in operational efficiencies in our Underground segment in particular, there are still continuous improvement opportunities, albeit most likely with declining marginal returns. There are also opportunities for low cost operational and margin improvement within our Aboveground segment. We believe that we can achieve both Underground and Aboveground operational gains within our expected capital (including maintenance capital) expenditures of approximately $5 million annually.

As recently announced, we appointed Rene Aldana as our Chief Operating Officer, effective January 19, 2016. Rene is an experienced operator, and will add further strength to our management team as we continue to pursue greater efficiency and profitable growth.

2016 Outlook

The following represents forward looking information and readers are cautioned that actual results may differ from expectations.

ZCL expects continued growth opportunities in 2016 in the Petroleum and Water Products groups; however, this will be partially offset by flat or lower revenue in the Aboveground segment due to low energy prices. For the first quarter of 2016, we anticipate the Underground operating segment will have seasonally strong first quarter results, partially offset by low revenue and a negative margin in our Aboveground operating segment, and increased general and administration expenses due to higher professional fees.

Over the last five years, the Company has been able to grow revenue and earnings at a compound annual growth rate of 10%. We expect this is a sustainable trend; however achievement of this growth rate in any individual year is not assured.

Our outlook by product group is as follows:

Petroleum Products

ZCL's recent success is mostly attributable to the Petroleum Products group, particularly the downstream (retail) sub-market, which we believe has a long term compound annual organic growth rate of high single digits. The three dynamics of larger U.S. retail petroleum marketers competing to expand their market share; an aging installed tank base that is leading to an increased rate of tank replacement; and ZCL's market share gains over steel tanks, support our forecast for continued moderate growth in our largest revenue segment.

We expect this growth to be driven by the US Downstream market where retail petroleum marketers are enjoying high margins and increased cash flow from higher gasoline sales due to low oil prices. While petroleum retailers in Canada are comparable in profitability to their US counterparts, the capital spending decisions made in Canada are curtailed by the fact that a large portion of the Canadian retail market is controlled by integrated major oil companies. Certain oil companies in Canada are experiencing significant slow-downs in the Upstream segment of their businesses and have reacted by announcing across the board reductions in their 2016 capital spending plans, including spending in the profitable retail segment.

Water Products

With growing awareness in North America that water is the next scarce resource, and the recognition of water as an economic input that is increasing in value, we believe this will result in water conservation initiatives that will increasingly include ZCL's storage tanks as part of the solution. Coupled with the gradually improving construction market across North America, we expect this revenue segment will achieve future annual compound organic growth rates in the 10% - 20% range.

Corrosion Products

Given the current market conditions surrounding oil prices, we do not expect a recovery in revenue in 2016 for our Corrosion Products group, which accounted for 13% of our revenue in 2015. However, we believe that revenues will recover over the next 12-24 months and that we can grow the Corrosion Products group in the 10% range annually over the longer term. This part of our business is quite cyclical as much of it, particularly in the Oil Sands, is directly linked to global energy prices and associated capital spending levels in the broad industrial markets.

In reaction to what we view as the current low point in the cycle in the Corrosion Product markets, we are aggressively cutting costs. The cost cutting initiatives include the closure of our Montreal, QC facility (and consolidation of this unit with our Brockville, ON plant), across the board overhead and salaried staff reductions in all Aboveground facilities, and the implementation of job sharing programs for our hourly workers in certain markets where those programs are available. We are also redirecting certain of our sales activities into non-energy sensitive markets to make up for the Oil Sands revenue shortfall.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Year Ended December 31 2015 $	2014 $	2013 $
Operating Results			
Revenue			
Underground Fluid Containment	**160,685**	139,087	121,692
Aboveground Fluid Containment	**24,990**	31,748	40,012
Total revenue	**185,675**	170,835	161,704
Gross profit (*note 1*)	**33,191**	34,460	33,482
Gross margin (note 1)	***18%***	*20%*	*21%*
General and administration	**9,287**	9,076	8,552
Foreign exchange gain	**(2,173)**	(1,008)	(46)
Depreciation and amortization	**3,955**	3,748	3,991
Finance expense	**319**	383	446
Loss on disposal of assets	**32**	50	106
Impairment of assets	**2,878**	-	-
Income tax expense	**5,894**	5,895	6,048
Net income	**12,999**	16,316	14,385
Earnings per share			
Basic	**0.43**	0.54	0.49
Diluted	**0.43**	0.54	0.49
Cash dividends declared per common share	**0.185**	0.15	0.11
Adjusted EBITDA (*note 1*)	**26,484**	27,077	25,600
Adjusted EBITDA as % of revenue	***14%***	*16%*	*16%*
Adjusted EBITDA per diluted share	**0.87**	0.89	0.86
Cash Flows			
Funds from operations (*note 1 & 2*)	**19,577**	20,771	18,413
Changes in non-cash working capital	**2,710**	(3,458)	(521)
Net repayment of long term debt and finance lease obligations	**(2,041)**	(1,415)	(1,350)
Issuance of common shares on exercise of stock options	**2,103**	1,328	2,934
Repurchase of common shares	**(3,247)**	-	-
Dividends paid	**(5,285)**	(4,193)	(2,923)
Purchase of capital and intangible assets, net of disposals	**(3,914)**	(3,775)	(2,965)
Foreign exchange	**2,187**	272	468

(in thousands of dollars)	As at December 31 2015 $	2014 $	2013 $
Financial Position			
Working capital *(note 1)*	**76,781**	62,868	48,112
Total assets	**177,544**	156,654	134,315
Return on capital employed *(note 1)*	**26%**	29%	29%
Net cash *(note 1)*	**39,095**	26,079	15,414
Total non-current liabilities	**5,015**	6,576	7,397

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 2015	2014	% change
Underground Fluid Containment:			
Petroleum Products	**136,909**	120,437	14%
Water Products	**23,776**	18,650	28%
	160,685	139,087	16%
Aboveground Fluid Containment:			
Corrosion Products	**24,990**	31,748	(21%)
	185,675	170,835	9%

Record revenue of $185.7 million for the year ended December 31, 2015, was up $14.8 million or 9% from $170.8 million in the prior year. Record revenue was generated in both the Petroleum and Water Product groups, both of which benefited from a strong US dollar, 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 $160.7 million, was $21.6 million or 16% higher for the year ended December 31, 2015, compared with the year ended December 31, 2014.

The $16.5 million or 14% increase in Petroleum Products revenue was attributable to the US market with an increase of $4.6 million or 6%, prior to a positive foreign exchange conversion impact for reporting purposes of $16.1 million. In the US, sales to distributors and contractors were up 19% compared to 2014, while sales to retail petroleum marketers were up 4%.

Canadian Petroleum Products revenue in 2015 was down $5.0 million or 18% from 2014. The decrease was primarily a result of a decrease in sales to the upstream and midstream sectors which were down $4.0 million compared to a year earlier. In addition, sales to major oil customers in the downstream market were also down compared to 2014. Canadian Petroleum Products customers, a large part of which are integrated major oil companies, are being impacted by the low energy prices that have been ongoing throughout 2015. 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 $0.7 million, primarily due to higher Parabeam® sales, as compared to 2014.

Water Products revenue was up $5.1 million, or 28% compared with 2014 and the increase was attributable to sales to US Water Products customers which rose by $6.1 million or 44% compared to 2014. The US sales include a positive foreign exchange impact of $3.0 million on the conversion of US to Canadian dollar sales for reporting purposes. Canadian Water Products sales were down $1.0 million or 20% from the prior year, reflecting lower activity levels in energy market related infrastructure projects, including man-camps.

Aboveground Fluid Containment

Aboveground revenue of $25.0 million was $6.8 million or 21% lower than $31.7 million a year earlier. Oil Sands revenue decreased by $8.4 million as compared to 2014. In the Industrial Corrosion market, revenue was up $1.7 million compared to 2014. While US field service sales were down $0.3 million on a source currency basis, they were up $0.6 million when converted to Canadian dollars for reporting purposes. Industrial Corrosion Product sales, manufactured in our Canadian facilities, were up $1.0 million compared to a year earlier.

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 2015	2014	% change	% of rev 2015
Underground Fluid Containment	**36,492**	30,228	21%	23%
Aboveground Fluid Containment	**(3,301)**	4,232	(178%)	(13%)
	33,191	34,460	(4%)	18%

In 2015, gross profit of $33.2 million decreased by $1.3 million or 4% compared to 2014. Gross margin decreased to 18% from 20% in 2014. Increases in the Underground operating segment gross profit and gross margin were more than offset by decreases in the Aboveground operating segment gross profit and gross margin. The changes reflect the factors discussed below:

Underground Fluid Containment

Underground gross profit of $36.5 million was up $6.3 million or 21% from $30.2 million in 2014. The increase in gross profit was primarily derived from the increase in sales to the US Petroleum Products and Water Products markets. Gross margin of 23%, a one percentage point increase from 22% in 2014, was also derived from the US operations. Gross margins in our Underground operating segment increased for the fifth consecutive year.

Aboveground Fluid Containment

Aboveground gross profit was negative $3.3 million, down $7.5 million or 178% from $4.2 million in 2014. Gross margin of negative 13% decreased 26 percentage points from 13% in 2014. As previously reported in our 2015 quarterly disclosures, the deterioration in gross profit and gross margin was derived from certain negative margin industrial corrosion projects that occurred early in the year and low sales volume in all Corrosion Products markets which impacted the ability to cover the fixed cost base of the Aboveground operating segment manufacturing operations. In addition, $0.5 million in costs related to the closure of the Montreal manufacturing facility negatively impacted the gross profit and gross margin in 2015, compared to a year earlier.

General and Administration

($000s)	Twelve Months
2015	9,287
2014	9,076
% change	2%

General and administration ("G&A") expense for the year ended December 31, 2015 was comparable to 2014.

Foreign Exchange Gain

($000s)	Twelve Months
2015	(2,173)
2014	(1,008)

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	2015		2014			
	Avg.	**Close**	**Avg.**	**Close**	**Avg. Change**	**Close Change**
Q1	**1.24**	**1.26**	1.10	1.11	12%	14%
Q2	**1.23**	**1.24**	1.09	1.07	13%	16%
Q3	**1.31**	**1.34**	1.09	1.12	20%	20%
Q4	**1.34**	**1.39**	1.14	1.16	18%	20%
Annual	**1.28**	**1.39**	1.10	1.16	16%	20%

euro Conversion Rates

Year Ended	2015		2014			
	Avg.	**Close**	**Avg.**	**Close**	**Avg. Change**	**Close Change**
Q1	**1.40**	**1.37**	1.51	1.52	(7%)	(10%)
Q2	**1.36**	**1.37**	1.50	1.46	(9%)	(6%)
Q3	**1.45**	**1.51**	1.44	1.42	1%	6%
Q4	**1.46**	**1.51**	1.42	1.41	3%	7%
Annual	**1.42**	**1.51**	1.47	1.41	(3%)	7%

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

Depreciation and Amortization

($000s)	Twelve Months
2015	3,955
2014	3,748
% change	6%

The 6% year over year increase in depreciation and amortization expense primarily resulted from the higher capital asset value in 2015 compared to the prior year due to an increase in the 2014 capital spending program compared to 2013. As well, the depreciation and amortization on US dollar denominated fixed assets are translated to Canadian dollars for reporting purposes at a higher value due to the increase in the value of the US dollar, compared with a year earlier. The increase was partially offset by a decrease in amortization of certain intangible assets on the ZCL-Dualam acquisition which became fully amortized at the beginning of the first quarter of 2015. Overall, annual capital expenditures were up $0.3 million in 2015, to $4.7 million, compared to $4.4 million in the prior year.

Finance Expense

($000s)	Twelve Months
2015	319
2014	383
% change	(17%)

The 17% reduction in finance expense in 2015 compared to 2014 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 2015.

Impairment of Assets

During the year, the Company performed an impairment analysis on the Aboveground operating segment due to the near term low activity levels and resulting low profitability. As a result, and as reported in our third quarter 2015 disclosure, a $2.7 million impairment charge was recorded against the carrying value of Aboveground goodwill, reducing the balance to $nil. In addition, an equipment impairment charge of $0.2 million was recorded against the carrying value of equipment relating to the decommissioning of the Montreal manufacturing facility.

The impairment to goodwill and equipment is an accounting adjustment which is a non-cash item and has no on-going impact to the business.

Income Taxes

Income tax expense for the year ended December 31, 2015, represented 31.2% of pre-tax income, compared to 26.5% of pre-tax income in 2014. The increase in 2015 compared with a year earlier, is primarily due to the goodwill impairment of $2.7 million incurred in 2015, which is not deductible for tax purposes, nor does it represent a temporary difference between the calculation of accounting net income and taxable income.

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
2015	14,210
2014	4,814

The foreign translation gain in the year ended December 31, 2015 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the year from 1.16 to 1.39. In 2014, the US dollar also strengthened from 1.07 to 1.16 generating a gain on the translation of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2015, the Company increased working capital (current assets less current liabilities) by $13.9 million to $76.8 million compared to $62.9 million as at December 31, 2014. The majority of the increase was attributed to positive funds from operations of $19.6 million and an increase in inventory, partially offset by a reduction in accounts receivable.

As at December 31, 2015, the Company had cash and cash equivalents of $40.8 million (December 31, 2014 - $28.7 million) and net cash of $39.1 million (December 31, 2014 – net cash of $26.1 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 anticipated 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. The operating facility is due on demand and matures on May 31, 2017.

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, 2017. The interest charged on the loan is the US dollar based 30-day LIBOR plus 175 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, 2015, the company issued 584,108 shares on the exercise of stock options. Also during the year, ZCL repurchased and cancelled 530,500 shares through the Normal Course Issuer Bid implemented in March, 2015.

Cash Flows

	Twelve Months	
($000's)	**2015**	**2014**
Operating activities	**22,287**	17,313
Financing activities	**(8,470)**	(4,280)
Investing activities	**(3,914)**	(3,775)
Foreign exchange[(1)]	**2,187**	272
	12,090	9,530

(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 $19.6 million for the year ended December 31, 2015, down $1.2 million from $20.8 million for the year ended December 31, 2014. The decrease relative to 2014 is due primarily to the reduction in gross profit.

Changes in non-cash working capital totalled $2.7 million for the year ended December 31, 2015 compared to negative $3.5 million for the year ended December 31, 2014. The major contributing factor to the increase relative to 2014 was the reduction of accounts receivable. Cash collected from accounts receivable was partially offset by a reduction in accounts payable and accrued liabilities as at December 31, 2015.

Financing Activities

Cash flows used in financing activities were $8.5 million for the year ended December 31, 2015 compared to $4.3 million for the year ended December 31, 2014. The increase in cash outflows relating to financing activities in 2015 compared to a year earlier, was primarily due to the $3.2 million used to repurchase shares through the Normal Course Issuer Bid implemented in March, 2015. In addition, dividends paid in 2015 were $5.3 million, a $1.1 million increase over 2014. The exercise of stock options in 2015 generated $2.1 million in cash inflows compared to the $1.3 million generated in 2014.

Investing Activities

The cash flows used in investing activities were $3.9 million for the year ended December 31, 2015 compared to $3.8 million for 2014. Purchases of property, plant and equipment and intangible assets were $0.4 million lower in 2015 than a year earlier. However, proceeds on disposal of property, plant and equipment were $0.6 million lower in 2015 compared to 2014, which increased the overall cash flows used in investing activities when compared to a year earlier.

Contractual Obligations

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 $1.3 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, 2015, the performance letters of credit issued totalled $1.1 million.

As at December 31, 2015, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled $13.4 million.

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

($000s)	**Long Term Debt and Finance Lease**	**Operating Leases**	**Total**
2016	1,675	2,930	4,605
2017	-	2,136	2,136
2018	-	1,606	1,606
2019	-	1,187	1,187
2020	-	1,001	1,001
Thereafter	-	4,558	4,558
Total	1,675	13,418	15,093

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 1.07 in the second quarter of 2014 to a high of 1.39 in the fourth quarter of 2015.

For the three months ended	**2015**				**2014**			
(in thousands of dollars, except per share amounts)	**Dec 31 $**	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**	**Dec 31 $**	**Sep 30 $**	**Jun 30 $**	**Mar 31 $**
Revenue	46,974	59,842	46,664	32,195	48,195	49,361	41,687	31,592
Net income	3,885	5,205	3,400	509	4,895	5,557	4,492	1,372
Adjusted EBITDA *(note 1)*	6,005	12,627	6,052	1,800	7,702	8,834	7,382	3,159
Basic earnings per share	0.13	0.17	0.11	0.02	0.16	0.19	0.15	0.05
Diluted earnings per share	0.13	0.17	0.11	0.02	0.16	0.18	0.15	0.05
Adjusted EBITDA per diluted share *(note 1)*	0.20	0.41	0.20	0.06	0.25	0.29	0.24	0.10
Dividends declared per share	0.05	0.045	0.045	0.045	0.04	0.04	0.035	0.035

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."

FOURTH QUARTER RESULTS

Selected Financial Information

(in thousands of dollars, except per share amounts)	Fourth Quarter Ended December 31	
	2015	2014
	$	$
Operating Results		
Revenue		
Underground Fluid Containment	**42,324**	37,616
Aboveground Fluid Containment	**4,650**	10,579
Total revenue	**46,974**	48,195
Gross profit (*note 1*)	**7,822**	9,138
Gross margin (note 1)	***17%***	*19%*
General and administration	**2,281**	2,156
Foreign exchange gain	**(348)**	(568)
Depreciation and amortization	**1,078**	1,000
Finance expense	**73**	97
Loss on disposal of assets	**3**	104
Income tax expense	**850**	1,454
Net income	**3,885**	4,895
Earnings per share		
Basic	**0.13**	0.16
Diluted	**0.13**	0.16
Cash dividends declared per common share	**0.05**	0.04
Adjusted EBITDA (*note 1*)	**6,005**	7,702
Adjusted EBITDA as a % of revenue	***13%***	*16%*
Adjusted EBITDA per diluted share	**0.20**	0.25
Cash Flows		
Funds from operations (*note 1 & 2*)	**4,515**	6,582
Changes in non-cash working capital	**13,431**	8,705
Net repayment of long term debt and finance lease obligations	**555**	(375)
Issuance of common shares on exercise of stock options	**1,363**	827
Dividends paid	**1,345**	(1,200)
Purchase of capital and intangible assets, net of disposals	**1,228**	(1,761)
Foreign exchange	**688**	260

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.

Overall Fourth Quarter Performance

Net income in the fourth quarter of 2015 was $3.9 million, down $1.0 million or 21% from $4.9 million a year earlier. Earnings per diluted share in the fourth quarter of 2015 were $0.13, down $0.03 or 20% from $0.16 per diluted share a year earlier. The decrease in net income was primarily a result of lower revenues and profitability in the Aboveground operating segment partially offset by an increase in the revenue and profitability of the Underground operating segment.

Revenue

($000s)	Fourth Quarter 2015	2014	% change
Underground Fluid Containment:			
Petroleum Products	**35,567**	31,669	12%
Water Products	**6,757**	5,947	14%
	42,324	37,616	13%
Aboveground Fluid Containment:			
Corrosion Products	**4,650**	10,579	(56%)
	46,974	48,195	(3%)

Revenue for the fourth quarter ended December 31, 2015, was $47.0 million, compared to $48.2 million in the fourth quarter of 2014. Underground operating segment revenue was up $4.7 million compared to a year earlier, but this increase was more than offset by a decrease in the Aboveground operating segment revenue. The change in revenue reflects the factors noted below:

Underground Fluid Containment

Underground revenue of $42.3 million was $4.7 million or 13% higher in the fourth quarter of 2015, compared with $37.6 million in the fourth quarter of 2014.

In the fourth quarter of 2015, Petroleum Products revenue was $35.6 million, up $3.9 million or 12% from $31.7 million in the same period last year. The increase was attributable to the US market, which was up $1.9 million prior to a positive impact on the US to Canadian dollar translation for reporting purposes. In the US, sales to distributors and contractors were up 27%, while sales to retail petroleum marketers were up 2% compared to the fourth quarter of 2014.

In the Canadian Petroleum Products market, revenue was down $3.4 million for the fourth quarter of 2015, due to a decrease in upstream sales of $1.2 million, as well as a $1.9 million reduction in sales to major oil customers in the downstream market. The Canadian pre-order program was lower in the fourth quarter, compared with a year earlier.

Petroleum Products also includes revenue from international operations, which was up $0.7 million compared to the fourth quarter of 2014, primarily due to increased sales of Parabeam compared with a year earlier.

Water Products revenue for the fourth quarter of 2015 of $6.8 million was up $0.8 million or 14% from $5.9 million in the fourth quarter of 2014. The increase in US Water sales was offset by a decrease in Canadian Water sales, however the translation of the US sales to Canadian dollars for reporting purposes resulted in the overall increase in revenue over 2014.

Aboveground Fluid Containment

Aboveground revenue of $4.7 million in the fourth quarter of 2015 was $5.9 million or 56% lower than $10.6 million in the same quarter a year earlier, with the decrease attributable to both US and Canadian markets. Revenue from our Western Canadian Corrosion customers was down $1.9 million as compared to the same quarter in 2014. In Industrial Corrosion, revenue from our field service operations was down $1.3 million and product revenue was down $2.7 million compared to the fourth quarter of 2014.

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 2015	2014	% change	% of rev 2015
Underground Fluid Containment	**9,344**	7,587	23%	22%
Aboveground Fluid Containment	**(1,522)**	1,551	(198%)	(33%)
	7,822	9,138	(14%)	17%

In the fourth quarter of 2015, gross profit of $7.8 million decreased by $1.3 million or 14% compared to $9.1 million for the same quarter in 2014. Gross margin decreased two percentage points to 17% from 19% in the same quarter of 2014. These changes reflect the factors discussed below:

Underground Fluid Containment

Underground gross profit of $9.3 million was up $1.7 million or 23% from $7.6 million in the same quarter of 2014. Gross margin for the fourth quarter increased two percentage points year over year to 22%, up from 20%, driven by increases in the US Underground operations compared to the same quarter in 2014.

Aboveground Fluid Containment

Aboveground gross profit was negative $1.5 million, down $3.1 million from $1.6 million for the quarter ended December 31, 2014. Gross margin of negative 33% was down 46 percentage points from 13% in the fourth quarter of 2014. The year over year decreases in both gross margin and gross profit were due to a significant decrease in sales volume. The current year did not have enough revenue to adequately support the fixed manufacturing cost base in the Aboveground operating segment. In addition, costs of $0.4 million relating to the Montreal operating facility closure were incurred during the fourth quarter and contributed to the loss. The decrease in the gross profit and gross margin in the fourth quarter of 2015 was derived from both US and Canadian Aboveground markets.

General and Administration

($000s)	Fourth Quarter
2015	2,281
2014	2,156
% change	6%

General and administration ("G&A") expense of $2.3 million for the fourth quarter ended December 31, 2015 was up $0.1 million or 6% over the fourth quarter of 2014. The increase was due in part to US dollar denominated G&A that increased as a result of the foreign exchange conversion to Canadian dollars for reporting purposes.

Foreign Exchange Gain

($000s)	Fourth Quarter
2015	(348)
2014	(568)

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	2015		2014			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
USD	**1.34**	**1.39**	1.14	1.16	18%	20%
euro	**1.46**	**1.51**	1.42	1.41	3%	7%

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

Depreciation and Amortization

($000s)	Fourth Quarter
2015	1,078
2014	1,000
% change	8%

The 8% increase in depreciation and amortization expense for the quarter ended December 31, 2015 compared to the quarter ended December 31, 2014, primarily resulted from the depreciation and amortization on US dollar denominated fixed assets. The US assets are translated to Canadian dollars for reporting purposes at a higher value due to the increase in the value of the US dollar, compared with a year earlier.

Finance Expense

($000s)	Fourth Quarter
2015	73
2014	97
% change	(2%)

The reduction of the finance expense relative to the prior year is the result of the decrease in the principal balance of the term loan.

Income Taxes

Income tax expense for the three months ended December 31, 2015, represented 18% of pre-tax income, compared to 23% of pre-tax income in the same quarter of 2014. The decrease in the 2015 annual effective tax rate to 18% is a result of our jurisdictional income allocation differing from expectations in previous quarters as well as the impact of the foreign exchange gains which are not taxed at the same rates as business income.

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
2015	2,999
2014	2,637

The foreign translation gain in the fourth quarter of 2015 was due to strengthening of the US dollar relative to the Canadian dollar throughout the three months from 1.34 to 1.39. In the fourth quarter of 2014, the US dollar also strengthened from 1.12 to 1.16.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of $76.8 million as at December 31, 2015 was an increase over the $71.7 million at September 30, 2015. Reductions in short term liabilities, including accounts payable and accrued liabilities and deferred revenue, was the primary driver in the increase 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, 2015.

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, 2015 was prime plus 25 basis points, 2.95% (December 31, 2014 - prime plus 75 basis points, 3.75%). The effective interest rate on the term loan balance at December 31, 2015 was US LIBOR rate plus 175 basis points, 2.18% (December 31, 2014 – US LIBOR rate plus 225 basis points, 2.42%). 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, 2015.

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, 2015. 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, 2015, was as follows:

(in thousands of US dollars)	$
Foreign operations	19,242
Domestic operations	10,830
Net balance sheet exposure	30,072

Operating exposure for the twelve months ended December 31, 2015, was as follows:

(in thousands of US dollars)	$
Sales	119,405
Operating expenses	96,480
Net operating exposure	22,925

The weighted average US to Canadian dollar translation rate was 1.28 for the year ended December 31, 2015. The translation rate as at December 31, 2015, was 1.39.

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, 2015, as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	1,614
Net operating exposure of foreign operations	2,815
Change in net income	4,429

Other comprehensive income would have changed $2.5 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 downstream retail 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, 2015, 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 $24.5 million as at December 31, 2015 (December 31, 2014 - $27.1 million). On a geographic basis as at December 31, 2015, approximately 22% (December 31, 2014 – 48%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 78% (December 31, 2014 – 52%) was due from US customers. The geographic change in accounts receivable reflects the changes in geographic sources of revenue for the last quarter of the year relative to 2014.

Payment terms are generally net 30 days. As at December 31, 2015, the percentages of trade accounts receivable were as follows:

	December 31, 2015	December 31, 2014
Current	**51%**	58%
Past due 1 to 30 days	**26%**	23%
Past due 31 to 60 days	**11%**	13%
Past due 61 to 90 days	**6%**	3%
Past due greater than 90 days	**6%**	3%
Total	**100%**	100%

Liquidity Risk

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

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

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

RISKS AND UNCERTAINTIES

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

Environmental Risks

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

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 $23,000 (2014 - $90,000) for the year ended December 31, 2015, 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, 2015 included $6,000 (December 31, 2014 - $11,000) 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, 2015 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 an actuary. 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, 2015

During the year, the Company applied certain standards and amendments that did not significantly impact the consolidated financial statements of the Company. These include amendments to IFRS 2 Share-based Payments; IFRS 3 Business Combinations; IFRS 13 Fair Value Measurement; IAS 16 Property, Plant, and Equipment; IAS 24 Related Party Disclosures; and IAS 38 Intangible Assets. The Company also applied amendments to IFRS 8 Operating Segments which include disclosing the judgments made by management in applying aggregation criteria for similar operating segments. Specific disclosures on management's judgment can be found in note 24 of these Consolidated Financial Statements.

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 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15). The new revenue standard will supersede all current revenue recognition requirements under IFRS. 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, 2018, 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 (2012-2015 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, 2015, 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, 2015, 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, 2015, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as at December 31, 2015, 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, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified. There were also no material weaknesses relating to the design of ICFR at December 31, 2015, and no limitations on the scope of design of ICFRs. While management of the Company has evaluated the effectiveness of disclosure controls and procedures and ICFR as of December 31, 2015, and have concluded that these controls and procedures are being maintained as designed, they recognize that the disclosure controls and procedures and ICFR may not prevent all errors and fraud.

OUTSTANDING SHARE DATA

As at March 2, 2016, there were 30,267,070 common shares and 1,156, 436 share options outstanding. Of the options outstanding, 721,748 are currently exercisable into common shares. ZCL repurchased and cancelled 530,500 shares through the Normal Course Issuer Bid implemented in March, 2015.

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, finance lease, current portion of finance lease 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, 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.

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		
	2015	**2014**	**2015**	**2014**	**2013**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Revenue	**46,974**	**48,195**	**185,675**	170,835	161,704
Manufacturing and selling costs	**39,152**	**39,057**	**152,484**	136,375	128,222
Gross profit	**7,822**	**9,138**	**33,191**	34,460	33,482
Gross margin	**17%**	**19%**	**18%**	20%	21%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2015	**2014**	**2015**	**2014**	**2013**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income from operations	**3,885**	4,895	**12,999**	16,316	14,385
Adjustments:					
Depreciation and amortization	**1,078**	1,000	**3,955**	3,748	3,991
Finance expense	**73**	97	**319**	383	446
Income tax expense	**850**	1,454	**5,894**	5,895	6,048
EBITDA	**5,886**	7,446	**23,167**	26,342	24,870
Share-based compensation	**116**	152	**407**	685	624
Loss on disposal of property, plant & equipment	**3**	104	**32**	50	106
Loss on impairment of goodwill	**-**	-	**2,656**	-	-
Loss on impairment of property, plant and equipment	**-**	-	**222**	-	-
Adjusted EBITDA	**6,005**	7,702	**26,484**	27,077	25,600
Adjusted EBITDA as a percentage of revenue	**13%**	16%	**14%**	16%	16%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2015	**2014**	**2015**	**2014**	**2013**
Numerator (in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Adjusted EBITDA	**6,005**	7,702	**26,484**	27,077	25,600
Denominator (in thousands)					
Weighted average shares outstanding - basic	**30,018**	30,038	**30,200**	29,963	29,308
Effect of dilutive securities:					
Stock options	**185**	432	**165**	416	399
Weighted average shares outstanding - diluted	**30,203**	30,470	**30,365**	30,379	29,707
Adjusted EBITDA per diluted share	**0.20**	0.25	**0.87**	0.89	0.86

The following table presents the calculation of funds from operations.

	Fourth Quarter Ended December 31		Year Ended December 31		
	2015	**2014**	**2015**	**2014**	**2013**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income from operations	**3,885**	4,895	**12,999**	16,316	14,385
Add (deduct) items not affecting cash:					
Depreciation and amortization	**1,078**	1,000	**3,955**	3,748	3,991
Deferred tax (recovery) expense	**(567)**	431	**(694)**	(28)	(693)
Loss on disposal of property, plant & equipment	**3**	104	**32**	50	106
Share-based compensation	**116**	152	**407**	685	624
Impairment of assets	**-**	-	**2,878**	-	-
Funds from operations	**4,515**	6,582	**19,577**	20,771	18,413

The following table presents the calculation of working capital.

	As at		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
(in thousands of dollars)	**$**	**$**	**$**
Current assets	**105,032**	89,550	70,272
Current liabilities	**28,251**	26,682	22,160
Working capital	**76,781**	62,868	48,112

The following table presents the calculation of net cash.

	As at		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
(in thousands of dollars)	**$**	**$**	**$**
Cash and cash equivalents	**40,770**	28,680	19,150
Less: Bank indebtedness	**-**	-	-
Less: Long term debt (including current portion)	**(1,317)**	(2,601)	(3,736)
Less: Finance lease (including current portion)	**(358)**	-	-
Net cash	**39,095**	26,079	15,414

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

	As at		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
(in thousands of dollars)	**$**	**$**	**$**
Adjusted EBITDA	**26,484**	27,077	25,600
Average capital employed:			
Shareholders' equity	**133,837**	114,077	95,297
Long term debt (including current portion)	**2,138**	3,169	4,249
Less: cash and cash equivalents	**(34,725)**	(23,915)	(12,123)
Average capital employed	**101,250**	93,331	87,423
Return on capital employed (Adjusted EBITDA/Average Capital Employed)	**26%**	29%	29%

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, 2015 and 2014

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, 2015, and 2014, and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2015 and 2014, 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, 2015, and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada
March 2, 2016

Ernst & Young LLP
Chartered Professional Accountants

MANAGEMENT'S REPORT

March 2, 2016

The Financial 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 Professional 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 Balance Sheets

As at

(in thousands of dollars)	December 31, 2015 $	December 31, 2014 $
ASSETS		
Current		
Cash and cash equivalents *[note 10]*	**40,770**	28,680
Accounts receivable *[note 21]*	**25,414**	27,793
Inventories *[note 5]*	**35,124**	31,028
Income taxes recoverable	**1,932**	980
Prepaid expenses	**1,792**	1,069
	105,032	89,550
Property, plant and equipment *[note 7]*	**31,205**	29,143
Assets held for sale *[note 7]*	**1,236**	—
Intangible assets *[note 8]*	**2,994**	3,819
Goodwill *[note 25]*	**37,077**	33,950
Other assets	**—**	192
TOTAL ASSETS	**177,544**	156,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 21]*	**18,285**	19,045
Dividends payable *[note 14]*	**1,513**	1,208
Income taxes payable	**1,430**	278
Deferred revenue	**4,324**	3,600
Current portion of provisions *[notes 10 and 21]*	**1,024**	1,053
Current portion of long term debt *[note 11]*	**1,317**	1,498
Current portion of finance lease *[note 12]*	**358**	—
	28,251	26,682
Deferred tax liabilities *[note 17]*	**3,929**	4,220
Long term portion of provisions *[notes 10 and 21]*	**1,086**	1,253
Long term debt *[note 11]*	**—**	1,103
TOTAL LIABILITIES	**33,266**	33,258
Shareholders' equity		
Share capital *[note 15]*	**76,066**	76,592
Contributed surplus *[note 16]*	**2,357**	2,568
Accumulated other comprehensive income	**15,216**	1,006
Retained earnings	**50,639**	43,230
TOTAL SHAREHOLDERS’ EQUITY	**144,278**	123,396
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**177,544**	156,654

See accompanying notes

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

Consolidated Statements of Income

For the years ended December 31,

(in thousands of dollars, except per share amounts)	2015 $	2014 $
Revenue	**185,675**	170,835
Manufacturing and selling costs *[note 6]*	**152,484**	136,375
Gross profit	**33,191**	34,460
General and administration	**9,287**	9,076
Foreign exchange gain	**(2,173)**	(1,008)
Depreciation and amortization *[notes 7 and 8]*	**3,955**	3,748
Finance expense *[note 20]*	**319**	383
Loss on disposal of property, plant and equipment *[note 7]*	**32**	50
Loss on impairment of goodwill *[note 25]*	**2,656**	—
Loss on impairment of property, plant and equipment *[note 7]*	**222**	—
	14,298	12,249
Income before income taxes	**18,893**	22,211
Income tax expense (recovery) *[note 17]*		
Current	**6,588**	5,923
Deferred	**(694)**	(28)
	5,894	5,895
Net income	**12,999**	16,316
Earnings per share *[note 18]*		
Basic	**$0.43**	$0.54
Diluted	**$0.43**	$0.54

See accompanying notes

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of dollars)	2015 $	2014 $
Net income	**12,999**	16,316
Translation of foreign operations	**14,210**	4,814
Total items that will be reclassified subsequently to net income	**14,210**	4,814
Comprehensive income	**27,209**	21,130

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, 2014	**30,214**	**76,592**	**2,568**	**1,006**	**43,230**	**123,396**
Share-based payments *[note 16]*	**—**	**—**	**407**	**—**	**—**	**407**
Shares issued on exercise of stock options *[notes 15 and 16]*	**584**	**2,103**	**—**	**—**	**—**	**2,103**
Shares repurchased through normal course issuer bid *[notes 15]*	**(531)**	**(3,247)**	**—**	**—**	**—**	**(3,247)**
Reclassification of fair value of stock options previously expensed *[note 16]*	**—**	**618**	**(618)**	**—**	**—**	**—**
Translation of foreign operations	**—**	**—**	**—**	**14,210**	**—**	**14,210**
Dividends declared *[note 14]*	**—**	**—**	**—**	**—**	**(5,590)**	**(5,590)**
Net income	**—**	**—**	**—**	**—**	**12,999**	**12,999**
Balance, December 31, 2015	**30,267**	**76,066**	**2,357**	**15,216**	**50,639**	**144,278**
Balance, December 31, 2013	29,848	74,846	2,301	(3,808)	31,419	104,758
Share-based payments *[note 16]*	—	—	685	—	—	685
Shares issued on exercise of stock options *[notes 15 and 16]*	366	1,328	—	—	—	1,328
Reclassification of fair value of stock options previously expensed *[note 16]*	—	418	(418)	—	—	—
Translation of foreign operations	—	—	—	4,814	—	4,814
Dividends declared *[note 14]*	—	—	—	—	(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

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of dollars)	2015 $	2014 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	**12,999**	16,316
Add (deduct) items not affecting cash:		
Depreciation and amortization *[notes 7 and 8]*	**3,955**	3,748
Deferred tax recovery	**(694)**	(28)
Share-based compensation expense *[note 16]*	**407**	685
Loss on disposal of property, plant and equipment *[note 7]*	**32**	50
Loss on impairment of property, plant and equipment *[note 7]*	**222**	—
Loss on impairment of goodwill *[note 25]*	**2,656**	—
Funds from operations	**19,577**	20,771
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**6,525**	(605)
Decrease (increase) in inventories	**171**	(5,826)
Increase in prepaid expenses	**(577)**	(190)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(3,784)**	2,972
Increase (decrease) in deferred revenue	**98**	(454)
Increase in income taxes payable	**277**	645
Total changes in non-cash working capital	**2,710**	(3,458)
Cash flows from operating activities	**22,287**	17,313
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares on the exercise of stock options *[notes 15 and 16]*	**2,103**	1,328
Repurchase of shares through Normal Course Issuer Bid *[notes 15 and 16]*	**(3,247)**	—
Dividends paid *[note 14]*	**(5,285)**	(4,193)
Repayment of long term debt *[note 11]*	**(1,684)**	(1,415)
Repayment of financing lease *[note 12]*	**(357)**	—
Cash flows used in financing activities	**(8,470)**	(4,280)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 7]*	**(3,902)**	(4,346)
Disposal of property, plant and equipment *[note 7]*	**13**	597
Purchase of intangible assets *[note 8]*	**(25)**	(26)
Cash flows used in investing activities	**(3,914)**	(3,775)
Foreign exchange gain on cash held in foreign currency	**2,187**	272
Increase in cash and cash equivalents	**12,090**	9,530
Cash and cash equivalents, beginning of the year	**28,680**	19,150
Cash and cash equivalents, end of the year	**40,770**	28,680

See accompanying notes

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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 2, 2016.

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 de-recognition 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 is validated by using a market approach, deriving market multiples from comparable public companies and comparable company transactions. Costs for disposing of 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 25.

For the purposes of assessing impairment, assets are grouped into cash-generating units ("CGUs") or groups of CGUs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. CGUs are the smallest identifiable group of assets that generate cash flows that are independent of the cash flows of other groups of assets. The determination of CGUs was based on management's judgments in regard to the geographic location of operating divisions, product groups and shared infrastructure.

Intangible assets

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

- The technical feasibility of completing the intangible asset so it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;

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

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

The amount initially recognized for internally developed intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally developed intangible asset can be recognized, development expenditures are recognized as an expense in the period in which they are incurred. Subsequent to initial recognition, internally developed intangible assets are reported at cost less accumulated 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 or groups of 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) or groups of CGUs. 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 an actuary.

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 Preserver 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 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

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. 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, 2015 and 2014, the Company did not have any held to maturity investments on the consolidated balance sheets.

Available for sale financial instruments:
As at December 31, 2015 and 2014, 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, 2015 and 2014, the Company did not have any derivatives designated as hedging instruments on the consolidated balance sheets.

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 approved by the Board of Directors of the Company to directors and employees of the Company. The cost of the stock options granted are measured at their fair value at the date on which they were granted. Management has determined that the Black-Scholes option pricing model is the most appropriate option pricing model to use given the nature of the Company's stock options. For more information on the estimates and inputs made by the Company, refer to note 16.

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

Income taxes

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

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

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

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

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

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

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether 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 amendments to IFRS 2 Share-based Payments; IFRS 3 Business Combinations; IFRS 13 Fair Value Measurement; IAS 16 Property, Plant, and Equipment; IAS 24 Related Party Disclosures; and IAS 38 Intangible Assets. The Company also applied amendments to IFRS 8 Operating Segments which include disclosing the judgments made by management in applying aggregation criteria for similar operating segments. Specific disclosures on management's judgment can be found in note 24 of these Consolidated Financial Statements.

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 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15). The new revenue standard will supersede all current revenue recognition requirements under IFRS. 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, 2018, 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 (2012-2015 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.

5. INVENTORIES

As at (in thousands of dollars)	December 31, 2015 $	December 31, 2014 $
Raw materials	**14,420**	11,729
Work in progress	**4,051**	6,097
Finished goods	**16,653**	13,202
	35,124	31,028

During the year ended December 31, 2015 there was a write-down of $18,000 (December 31, 2014 - $68,000) of inventory to its net realizable value.

6. MANUFACTURING AND SELLING COSTS

For the years ended December 31, (in thousands of dollars)	2015 $	2014 $
Raw materials and consumables used	**61,997**	57,961
Labour costs	**36,867**	31,250
Other costs	**55,025**	52,372
Net change in inventories of finished goods and work in progress	**(1,405)**	(5,478)
	152,484	136,375

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land $	Buildings $	Leaseholds $	Manufacturing Equip. $	Office Equip. $	Auto Equip. $	Total $
Cost							
As at December 31, 2013	6,479	7,832	4,146	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
Additions	3	229	411	3,486	415	115	4,659
Disposals	—	—	(15)	(1,118)	(166)	—	(1,299)
Reclassified as held for sale	(442)	(958)	—	—	—	—	(1,400)
Foreign exchange	—	222	461	2,137	139	110	3,069
As at December 31, 2015	**5,821**	**7,206**	**5,672**	**31,917**	**4,038**	**760**	**55,414**
Accumulated Depreciation							
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
Depreciation	—	215	468	1,663	359	81	2,786
Disposals	—	—	(14)	(999)	(121)	—	(1,134)
Impairment	—	—	—	222	—	—	222
Reclassified as held for sale	—	(164)	—	—	—	—	(164)
Foreign exchange	—	60	309	752	82	54	1,257
As at December 31, 2015	**—**	**2,524**	**3,455**	**14,498**	**3,355**	**377**	**24,209**
Carrying Amount							
As at December 31, 2014	6,260	5,300	2,123	14,552	615	293	29,143
As at December 31, 2015	**5,821**	**4,682**	**2,217**	**17,419**	**683**	**383**	**31,205**

Capital work in progress of $181,000 (December 31, 2014 - $655,000) is included above and not subject to depreciation. Included in this figure is $87,000 for manufacturing equipment, $73,000 for office equipment and $21,000 in leasehold improvements.

During the year ended December 31, 2015, the Company decided to permanently discontinue operations in the Montreal facility, which is included in the Aboveground operating segment, and sell the land and building. As at December 31, 2015, the land had a carrying value of $442,000 and the building had a carrying value of $794,000 for a total of $1,236,000, which is being presented as assets held for sale on the consolidated balance sheet. The carrying value is estimated to be less than the fair market value less costs to sell.

8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships $	Brands $	Internally Developed ERP Software $	Other $	Total $
Cost					
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
Additions	—	—	—	25	25
Foreign exchange	1,335	656	375	219	2,585
As at December 31, 2015	**8,736**	**4,668**	**3,972**	**5,098**	**22,474**
Accumulated Amortization					
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
Amortization	111	374	379	305	1,169
Foreign exchange	1,307	546	206	207	2,266
As at December 31, 2015	**8,584**	**4,193**	**2,271**	**4,432**	**19,480**
Carrying Amount					
As at December 31, 2014	235	739	1,911	934	3,819
As at December 31, 2015	**152**	**475**	**1,701**	**666**	**2,994**

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, 2015 and December 31, 2014. 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, 2017 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 25 basis points. The rate of interest charged on the operating credit facility for US dollar balances is US prime plus 25 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, 2015, the Company was in compliance with all restrictive covenants relating to the operating credit facility.

10. PROVISIONS AND CONTINGENCIES

a) Provisions

(in thousands of dollars)	**Warranty** $	**Self-insured liabilities** $	**Other** $	**Total** $
As at December 31, 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
Amounts used against the provision	(752)	—	(589)	(1,341)
Additional (reversal of) provision	727	(387)	474	814
Foreign exchange	95	220	16	331
As at December 31, 2015	**876**	**1,086**	**148**	**2,110**

Of the $2,110,000 (2014 - $2,306,000) in provisions described above, the Company expects $1,024,000 (2014- $1,053,000) to settle within 12 months of the balance sheet date. The remaining $1,086,000 (2014 - $1,253,000) 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 an actuary 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.

Included in cash and cash equivalents is $3,719,000 US dollars (2014 - $3,438,000 US dollars) held by Radigan Insurance Inc.

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.

11. LONG TERM DEBT

As at (in thousands of dollars)	December 31, 2015 $	December 31, 2014 $
Term loan	**1,317**	2,601
Total long term debt	—	2,601
Less current portion	**1,317**	1,498
	—	1,103

Excluding financing costs, the principal balance of the term loan as at December 31, 2015 is $965,000 US dollars (December 31, 2014 – $2,253,000 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 scheduled to be paid in full on September 30, 2016. The interest charged on the loan is a 30 day US LIBOR rate plus 175 basis points, effective rate of 2.18% as at December 31, 2015 (December 31, 2014 – 30 day US LIBOR plus 225 basis points, effective rate of 2.42%). 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, 2015 is $8,967,000 (December 31, 2014 $8,983,333).

The Company's operating and term credit facilities are utilized as required throughout the year. Both credit facilities bear interest at floating rates and changes in interest rates would affect the Company's exposure to interest rate risk in servicing the facilities. For additional information regarding the Company's exposure to market fluctuations in interest rates, refer to note 21.

12. FINANCE LEASE

During the year ended December 31, 2015, the Company entered into a finance lease to acquire a crane with a market value of $715,000. The lease is non-interest bearing for a period of 20 months and expires in November, 2016 at which point title will pass to the Company. The carrying value of the crane as at December 31, 2015 is $655,000 which is included in property, plant and equipment on the Company's balance sheet.

13. COMMITMENTS

Lease Commitment

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

(in thousands of dollars)	$
2016	2,930
2017	2,136
2018	1,606
2019	1,187
2020	1,001
Thereafter	4,558
	13,418

Other Contractual Obligations

The Company has provided a letter of credit in the amount of $0.3 million (2014 - $0.3 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 $1.3 million (2014 - $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, 2015, the issued performance letters of credit totalled $1.1 million (2014 - $0.5 million).

14. DIVIDENDS

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

2015				2014			
Declared	**Per share**	**Paid to shareholders**	**Total $**	**Declared**	**Per share**	**Paid to shareholders**	**Total $**
March 5, 2015	**$0.045**	April 15, 2015	**1,365**	March 7, 2015	0.035	April 15, 2015	1,048
May 7, 2015	**$0.045**	July 15, 2015	**1,367**	May 5, 2014	0.035	July 15, 2015	1,049
July 30, 2015	**$0.045**	October 15, 2015	**1,345**	August 5, 2014	0.040	October 15, 2014	1,200
November 2, 2015	**$0.050**	January 15, 2016	**1,513**	November 3, 2014	0.040	January 15, 2015	1,208
	$0.185		**5,590**		0.150		4,505

For the years ended December 31,

	2015 $	**2014 $**
Payable, beginning of period	**1,208**	896
Declared	**5,590**	4,505
Paid in cash	**(5,285)**	(4,193)
Payable, end of period	**1,513**	1,208

On March 2, 2016, the Company's Board of Directors declared a dividend of $0.08 per common share to be paid on April 15, 2016 to the shareholders of record as of March 31, 2016. The Company's Board of Directors also declared a special dividend of $0.50 per common share to be paid on March 31, 2016 to shareholders of record as of March 15, 2016.

15. SHARE CAPITAL

Authorized

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

Issued and outstanding

During the year ended December 31, 2015, the Company issued 584,108 (2014 – 365,543) common shares at an average rate of $3.60 per share for stock options exercised resulting in cash proceeds to the Company of $2,103,000 (2014 - $1,328,000). As at December 31, 2015, the Company had 30,267,070 common shares outstanding (December 31, 2014 – 30,213,462).

In March 2015, the Company entered into a Normal Course Issuer Bid ("NCIB") with the intent to re-purchase and cancel up to 750,000 shares from the open market. During the twelve months ended December 31, 2015, the Company purchased and cancelled a total of 530,500 shares at an average price of $6.10 per share.

16. SHARE-BASED PAYMENTS

a) Stock options

The Black-Scholes option pricing model, used by the Company to calculate the values of options, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely-tradeable, fully-transferable options. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values.

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

As at December 31, 2015, the Company has 1,156,436 (2014 – 1,516,716) options outstanding, which expire on dates between March 2016 and March 2020. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2015, 723,415 (2014 – 1,051,999) 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,

	2015		2014	
	Stock options #	**Weighted average exercise price $**	Stock options #	Weighted average exercise price $
Balance, as at January 1	**1,516,716**	**4.79**	1,929,261	4.56
Granted	**343,000**	**6.74**	—	—
Exercised	**(584,108)**	**3.60**	(365,543)	3.63
Forfeited	**(119,172)**	**6.15**	(47,002)	4.42
Expired	**—**	**—**	—	—
Balance, as at December 31	**1,156,436**	**5.83**	1,516,716	4.79

	2015					
	Options Outstanding				**Options Exercisable**	
Exercise Price $	**Stock options #**	**Weighted Average Exercise Price $**	**Weighted Average Remaining Contractual Life in Years #**		**Stock options #**	**Weighted Average Exercise Price $**
3.05	**47,500**	**3.05**	**0.19**		**47,500**	**3.05**
3.23	**1,667**	**3.23**	**0.40**		**1,667**	**3.23**
3.15	**113,219**	**3.15**	**0.93**		**113,219**	**3.15**
4.72	**299,951**	**4.72**	**1.93**		**299,951**	**4.72**
7.09	**391,099**	**7.09**	**2.93**		**261,078**	**7.09**
6.74	**303,000**	**6.74**	**4.25**		**—**	**6.74**
3.05 – 7.09	**1,516,436**	**5.83**	**2.71**		**723,415**	**5.22**

	2014					
	Options Outstanding				Options Exercisable	
Exercise Price $	Stock options #	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life in Years #		Stock options #	Weighted Average Exercise Price $
3.87	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

During the year ended December 31, 2015, 343,000 stock options (2015 – nil) were granted at an exercise price of $6.74.

During the year ended December 31, 2015, 584,108 stock options (2014 – 365,543) were exercised with a weighted average exercise price of $3.60 (2014 – $3.63) resulting in cash proceeds to the Company of $2,103,000 (2014 – $1,328,000). Compensation expense previously included in contributed surplus of $618,000 (2014 – $418,000) 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, 2015, share-based compensation expense of $407,000 (2014 - $685,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income.

The estimated fair values of stock options granted during the year ended December 31, 2015 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 $1.25.

	2015	**2014**
Risk-free interest rate (%)	**0.7**	n/a
Expected hold period to exercise (years)	**3.8**	n/a
Volatility in the price of the Company's shares (%)	**30.5**	n/a
Forfeiture rate (%)	**7.6**	n/a
Dividend yield (%)	**2.7**	n/a

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.

b) Performance share units

Under the Company's 2015 Incentive Plan, named executive officers may be awarded performance share units ("PSU") equal to the cash equivalent of one common share of ZCL stock. These PSUs vest over a three year period and are contingent on the Company achieving certain performance objectives. For the PSUs that vest, the unit holders will receive a cash payment based on the closing price of the Company's common shares on the expiry date of the units. Dividend equivalent rights are granted in tandem with the PSUs. For the twelve months ended December 31, 2015, the Company awarded 14,825 PSUs (2014 – nil) and canceled 4,500 PSUs (2014 – nil). Compensation expense of $21,000 for the twelve months ended December

31, 2015 (2014 - $nil) was recognized in general and administrative expenses. As at December 31, 2015, the amortized fair value of the PSUs on the Company's balance sheet was $21,000 (December 31, 2014 - $nil).

c) Deferred share units

Under the Company's 2015 Incentive Plan, directors may be awarded Deferred Share Units ("DSU") equal to the cash equivalent of one common share of ZCL stock. The DSUs vest on their grant date and are paid in cash to the holder upon retirement from the Company based on the market value of ZCL stock on the date of their retirement. Dividend equivalent rights are granted in tandem with the DSUs. During the year ended December 31, 2015, the Company awarded 26,000 DSUs (2014 – nil) and $191,000 of compensation expense (2014 - $nil) was recognized in general and administrative expenses. As at December 31, 2015, the fair value of the DSUs on the Company's balance sheet was $191,000 (December 31, 2014 - $nil).

17. INCOME TAXES

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

(in thousands of dollars)	**2015** **$**	**2014** **$**
Net income before tax	**18,893**	22,211
Statutory federal and provincial taxes at 26.30% (2014 – 25.50%)	**4,968**	5,664
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**1,269**	1,216
Effect of permanent differences	**(521)**	(802)
Non-taxable foreign income, other tax exempt income and other items	**178**	(183)
At the effective income tax rate of 31% (2014 – 27%)	**5,894**	5,895

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

(in thousands of dollars)	**2015** **$**	**2014** **$**
Balance, beginning of the year	**4,220**	4,075
Tax recovery during the year recognized in net income	**(694)**	(28)
Tax expense during the year recognized in other comprehensive income	**403**	173
At the effective income tax rate of 26% (2014 – 30%)	**3,929**	4,220

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

(in thousands of dollars)	**2015** **$**	**2014** **$**
Property, plant and equipment	**4,261**	3,598
Land	**363**	343
Intangible assets	**344**	586
Inventories	**(65)**	317
Refundable insurance premiums	**—**	46
Non-deductible reserves and accrued liabilities	**(973)**	(685)
Other	**(1)**	15
	3,929	4,220

18. EARNINGS PER SHARE

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

For the years ended December 31,

Numerator (in thousands of dollars)	**2015** **$**	**2014** **$**
Net income	**12,999**	16,316

Denominator (in thousands)	**2015** #	**2014** #
Weighted average shares outstanding - basic	**30,200**	29,963
Effect of dilutive securities:		
Stock options	**165**	416
Weighted average shares outstanding - diluted	**30,365**	30,379

19. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for $23,000 (2014 - $90,000) for the year ended December 31, 2015, 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, 2015 included $6,000 (December 31, 2014 - $11,000) 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)	**2015** **$**	**2014** **$**
Salaries, benefits and director fees	**1,458**	1,614
Share-based payments	**416**	303
Total	**1,874**	1,948

The Company has identified the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer as key management to the Company in addition to the members of the board of directors. The figures above are included in general and administrative expenses for the years ended December 31, 2015 and 2014. Share-based payments are the amount of expense recognized in the consolidated statements of income relating to the identified key management and directors.

20. FINANCE EXPENSE

For the years ended December 31,

(in thousands of dollars)	**2015** **$**	**2014** **$**
Short term interest, net of interest income	**232**	279
Interest, long term obligations	**87**	104
	319	383

21. FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not currently have a practice of trading derivatives and had no derivative instruments outstanding at December 31, 2015 and 2014.

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 any bank indebtedness balance at December 31, 2015 was prime plus 25 basis points, 2.95% (December 31, 2014 - prime plus 75 basis points, 3.75%). The effective interest rate on the term loan balance at December 31, 2015 was US LIBOR rate plus 175 basis points, 2.18% (December 31, 2014 – US LIBOR rate plus 225 basis points, 2.42%). 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, 2015.

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, 2015, the Company converted US dollar cash to Canadian dollar cash to help mitigate foreign exchange exposures resulting from fluctuations in exposed monetary assets and liabilities. The Company continues to monitor its foreign exchange exposure on monetary assets.

The tables that follow provide an indication of the Company's exposure to changes in the value of the US dollar relative to the Canadian dollar as at and for the year ended December 31, 2015. 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, 2015,

(in thousands of US dollars)	Foreign Operations $	Domestic Operations $	Total $
Cash and cash equivalents	**19,966**	**3,908**	**23,874**
Accounts receivable	**15,634**	**1,339**	**16,973**
Restricted cash	**250**	**—**	**250**
Accounts payable and accrued liabilities	**(8,367)**	**(1,693)**	**(10,060)**
Trade balances between foreign and domestic operations	**(8,241)**	**8,241**	**—**
Long term debt	**—**	**(965)**	**(965)**
Net balance sheet exposure	**19,242**	**10,830**	**30,072**

Operating exposure for the year ended December 31, 2015,

(in thousands of US dollars)	$
Sales	**119,405**
Operating expenses	**96,480**
Net operating exposure	**22,925**

The weighted average US to Canadian dollar translation rate was 1.28 for the year ended December 31, 2015. The translation rate as at December 31, 2015 was 1.39.

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, 2015,

(in thousands of US dollars)	$
Net balance sheet exposure of other operations	**1,614**
Net operating exposure of foreign operations	**2,815**
Change in net income	**4,429**

Other comprehensive income would have changed $2,463,000 if the value of the Canadian dollar fluctuated by 20% due to the net balance sheet exposure of financial assets and liabilities of foreign operations. The timing and volume of the above transactions as well as the timing of their settlement could impact the sensitivity analysis.

c) Credit risk

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

The Company has a concentration of customers in the downstream retail 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, 2015, 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 $24,481,000 as at December 31, 2015 (December 31, 2014 - $27,066,000). On a geographic basis as at December 31, 2015, approximately 22% (December 31, 2014 – 48%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 78% (December 31, 2014– 52%) was due from US customers. The geographic change in accounts receivable reflects the changes in geographic sources of revenue for the last quarter of the year relative to 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,

	2015	**2014**
Current	**51%**	58%
Past due 1 to 30 days	**26%**	23%
Past due 31 to 60 days	**11%**	13%
Past due 61 to 90 days	**6%**	3%
Past due greater than 90 days	**6%**	3%
	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 $933,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2014 - $727,000).

The Company had recorded an allowance for doubtful accounts of $327,000 as at December 31, 2015 (December 31, 2014 - $125,000). The allowance is an estimate of the December 31, 2015 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of $288,000 (2014 - $129,000), offset by payments of $97,000 (2014 - $41,000), write offs of $5,000 (2014 - $528,000) and a translation adjustment of $16,000 (2014 - $23,000) for the year ended December 31, 2015.

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 $**	**2016 $**	**2017 $**	**Thereafter $**
Accounts payable, accrued liabilities and provisions	**20,395**	19,309	1,086	—
Dividends payable	**1,513**	1,513	—	—
Long term debt	**1,317**	1,317	—	—
Finance lease	**358**	358		
Total	**23,583**	22,497	1,086	—

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.

22. STATEMENTS OF CASH FLOWS

For the years ended December 31,

(in thousands of dollars)	**2015 $**	**2014 $**
Net interest paid	**309**	373
Income taxes paid	**6,552**	5,701
	6,861	6,074

23. CAPITAL RISK MANAGEMENT

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

a) Long term debt and adjusted capital employed:

As at December 31,

(in thousands of dollars)	2015 $	2014 $
Current portion of long term debt *[note 11]*	**1,317**	1,498
Long term debt *[note 11]*	**—**	1,103
Finance lease	**358**	—
Total long term debt	**1,675**	2,601
Share capital	**76,066**	76,592
Contributed surplus	**2,357**	2,568
Retained earnings	**50,639**	43,230
Adjusted shareholders' equity	**129,062**	122,390
Adjusted capital employed	**130,737**	124,991

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 1% as at December 31, 2015 (December 31, 2014 – 2%) to be low. Adjusted capital employed is defined as long term debt plus total shareholders' equity excluding accumulated other comprehensive income.

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, 2015 Actual	Dec 31, 2015 Required	Dec 31, 2014 Actual	Dec 31, 2014 Required
Minimum equity value	**$144 million**	**>$50 million**	$123 million	>$50 million
Debt to tangible net worth	**0.02**	**<2.0**	0.03	<2.0
Fixed charge coverage ratio	**3.8**	**>1.5**	4.0	>1.5
Current ratio	**3.8**	**>1.25**	3.4	N/A

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

24. SEGMENTED INFORMATION

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. The Company has applied the aggregation criteria in IFRS 8.12 and aggregated individual manufacturing operations whose production process, products, distribution methods and industry markets are similar. Based on management's judgment, the aggregation criteria result in two reportable segments, Underground Fluid Containment ("Underground") and Aboveground Fluid Containment ("Aboveground"). Other operating segments whose assets, revenue and profit are less than 10% of the overall assets, revenue and profit of the consolidated group have been grouped into the Underground operating segment for reporting purposes.

a) Information about reportable segments

For the years ended December 31,

	Underground		**Aboveground**		**Total**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	**160,685**	139,087	**24,990**	31,748	**185,675**	170,835
Manufacturing and selling costs	**124,193**	108,859	**28,291**	27,516	**152,484**	136,375
Gross profit	**36,492**	30,228	**(3,301)**	4,232	**33,191**	34,460

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

	Inventories		**Property, plant and equipment**		**Intangible assets and goodwill**	
As at	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2015**	**Dec 31, 2014**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Underground	**32,792**	26,442	**26,901**	23,689	**39,409**	34,297
Aboveground	**2,332**	4,586	**4,304**	5,454	**662**	3,472
Total	**35,124**	31,028	**31,205**	29,143	**40,071**	37,769

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, 2015 and 2014, no single customer exceeded 10% of total revenue.

c) Information about geographic areas

For the years ended December 31,

	Revenues	
	2015	**2014**
(in thousands of dollars)	**$**	**$**
Canada	**43,304**	56,101
United States	**137,864**	110,969
International	**4,507**	3,765
	185,675	170,835

	Total assets		Property, plant and equipment, intangible assets and goodwill	
As at	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2015**	**Dec 31, 2014**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Canada	**52,788**	62,552	**22,097**	25,577
United States	**121,159**	90,377	**48,411**	40,417
International	**3,597**	3,725	**768**	918
	177,544	156,654	**71,276**	66,912

25. IMPAIRMENT TESTING OF GOODWILL

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

- Underground Canada
- Underground US
- Aboveground

Carrying amount of goodwill allocated to each CGU

	Underground Canada		Underground US		Aboveground	
As at	**Oct 1, 2015**	**Oct 1, 2014**	**Oct 1, 2015**	**Oct 1, 2014**	**Oct 1, 2015**	**Oct 1, 2014**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Goodwill	**1,377**	1,377	**34,511**	28,720	**—**	2,641

During the year ended December 31, 2015, certain factors indicated that the goodwill balance relating to the Aboveground CGU may be impaired. These factors included low profitability and continued low activity levels that are expected in the near term. As a result, a $2,656,000 impairment loss was recognized during the year ended December 31, 2015 pertaining to the Aboveground CGU. The recoverable amount of the Aboveground CGU, defined as the fair value less cost of disposal ("FVLCD") was $17,845,000 at the time the impairment test was performed.

Subsequent to the impairment test performed on the Aboveground CGU, the Company performed its annual impairment test on the remaining balance of goodwill as at October 1, 2015. Among other factors, the Company considers the relationship between the FVLCD of its CGUs, to their carrying amounts, when reviewing for indicators of impairment. As at October 1, 2015, the FVLCD of the CGUs were above the carrying amounts, indicating there was not an impairment of goodwill in any of the CGUs identified above. For the purposes of testing goodwill impairment, the Underground Canada and Underground US CGUs were combined reflecting the way the Underground operating segment is managed on a day to day basis.

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, 2015 figures above may differ from the October 1, 2014 carrying amount, along with the year end December 31, 2014 and 2015 carrying amounts.

Key assumptions used in the FVLCD calculations

The calculation of the FVLCD 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 or group of CGUs, 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 CGU groups are as follows: Underground CGU group (12.4% to 13.2%) and Aboveground (24.3% to 25.1%).

Growth rate estimates:
Growth rates for beyond 2015 are established using the board approved budgeted growth rate by CGU or groups of CGUs. Longer term growth rates are established using the Strategic Plan for each CGU. Both the 2015 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 FVLCD of the CGU or groups of CGUs. This, in turn, would change the excess or deficiency values over the carrying amounts of the CGU. For the Underground CGU group, the specific risk premium would need to increase 45% in the low end of the premium range before a deficiency would be created. For Aboveground CGU, the specific risk premium would need to increase 21% in the low end of the premium range 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 FVLCD of the overall CGUs or group of CGUs. Similarly, gross profits as a percentage of revenues used were in line with historical rates realized by the CGUs. For the Underground CGU group, gross profit would have to fall to 84% of our current expectations and the gross profit for the Aboveground CGU would have to fall to 90% of its current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2015, the total recoverable amount of the Company's CGUs exceeded their carrying amounts.

26. PRIOR YEAR RECLASSIFICATION

Certain of the prior years' balances were reclassified to conform to the current year's presentation.

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 Meeting
2:00 p.m. on Thursday, May 5, 2016
at the Hampton Inn by Hilton
in The Meeting Room
10020 12 Ave., SW,
Edmonton, Alberta
Canada T6X 0P9

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

Common Shares Outstanding
As of March 2, 2016
Total outstanding: 30,268,737

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

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Stock Listing and Share Symbol
Toronto Stock Exchange: ZCL

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