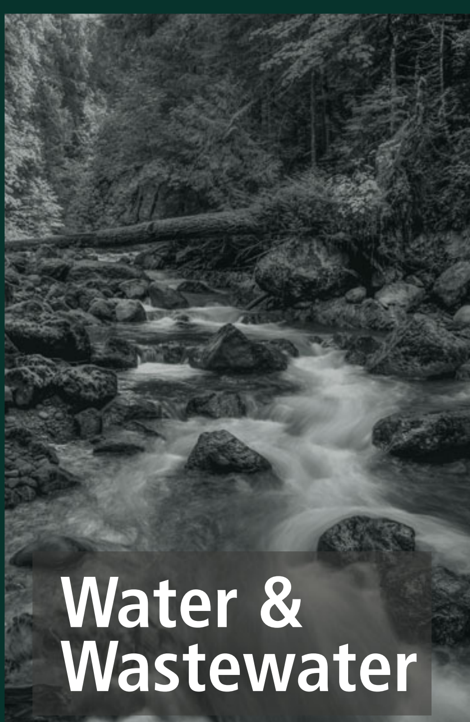
ZCL COMPOSITES INC.

Financial Report 2016



Message to Shareholders

Our customers' needs are **always evolving**, and so are we.

ZCL looks forward to celebrating our 30th year of leadership in composites manufacturing and we expect to continue delivering results by adapting to markets that are constantly evolving and changing.

Looking back on 2016, ZCL has demonstrated that anticipating and adapting to change is paramount to our success. It is the key that allows us to capitalize on opportunities that create shareholder value.

Change. The way we respond to it defines our course; the way we **grow** with it defines our **success**.

As we move forward, change continues to be central to all aspects of our organization. From shifting our market strategy to anticipate and better support our customers' expectations to refocusing on growth areas of our business, our commitment to providing value added solutions and achieving results is unwavering and stronger than ever.

In 2016, we **achieved**

- **Record-breaking Results**

  Our 2016 record results demonstrate that ZCL was again up to the challenge. In 2016, ZCL was able to achieve records from continuing operations for consolidated revenues, gross profit, net income, and adjusted EBITDA. In particular, after eliminating the impact of the ZCL Dualam business unit that was closed and sold during 2016, revenues from ZCL's continuing operations grew by 12% and adjusted EBITDA grew by 17% when compared with 2015. We achieved a record adjusted EBITDA margin of 18% of revenues from continuing operations.

  The record revenue was driven by a 15% increase from our core Fuel markets. Earnings per share from continuing operations increased by 12%, from $0.58 to $0.65 per share. Net income from continuing operations for 2016 was $20.0 million, up $2.5 million, or 14%, compared to 2015.

- **Successful Asset Sales: ZCL Dualam**

  As previously announced, we discontinued operations in our ZCL Dualam unit and successfully completed three separate asset sale transactions during the third quarter. We were also successful in selling the previously closed ZCL Dualam facility in Quebec. The proceeds from these sales exceeded $2 million, and we were also able to avoid significant closure costs by selling the assets of this business unit to third parties. From a cash flow perspective, the proceeds of these asset sales largely offset the operating losses incurred during 2016 related to the ZCL Dualam business. This transition allowed us to focus our efforts on our core and emerging markets where we have significant competitive advantages and offer a strong unique value proposition to our customers.

- ## Shareholder Value Creation

  While other areas of our business may continue to evolve, one aspect that will never change is our commitment to creating value for our shareholders.

  Over the past five years, ZCL has generated a compound annual growth rate in shareholder value (taking into account both share price appreciation and dividends paid) in excess of 38% annually. A $100 investment in ZCL shares at the beginning of 2012 would be worth $504 at the end of 2016, this compares to the same $100 being worth $149 if invested in the TSX Composite TRIV Index (Figure 1). ZCL delivered a 34% return on capital employed for 2016, the fifth consecutive year we have exceeded 20% for this important metric.

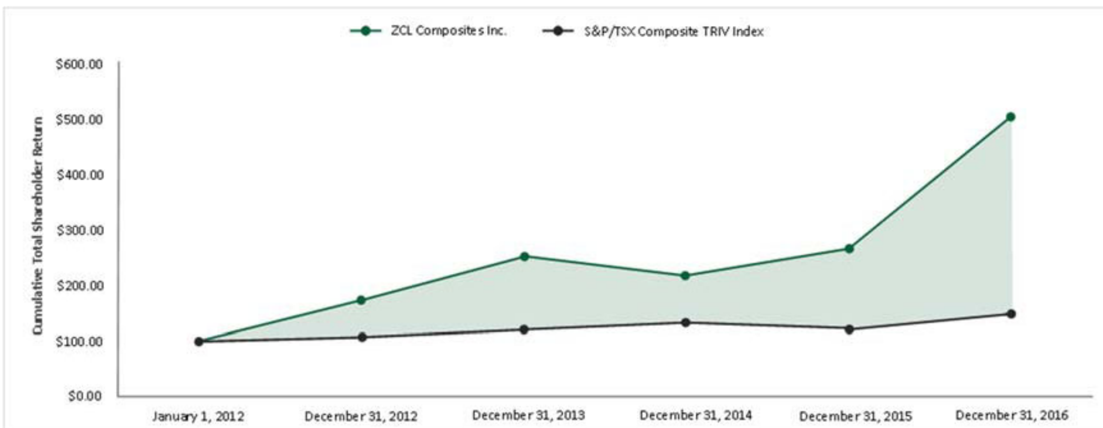


Figure 1. *Summary of cumulative total shareholder return, ZCL Composites Inc. vs. TSX Composite TRIV Index, 2012-2016*

We are **responsible** stewards of capital

ZCL remains committed to fiscally responsible stewardship of the capital we have been entrusted to manage. We intend to preserve our strong balance sheet to maintain the flexibility needed to take advantage of future profitable growth opportunities as they arise.

This year, we have again demonstrated this commitment by sharing ZCL's success with our shareholders in the form of the **$0.65 per share** special dividend and the **50% increase** in our quarterly dividend of **$0.12 per share per quarter**.

Since the beginning of 2012, including the special dividend to be paid March 31, 2017 and the quarterly dividend to be paid on April 17, 2017, ZCL will have distributed over **$60 million** in cash in the form of dividends to our shareholders.

Market strategy that puts our **customers** first

A company like ours can never be too customer-focused. We continue the pursuit of profitable growth opportunities across all business units, and have shifted our business alignment strategy from product to market-focused segments to better support our customers. Our new market segments include:

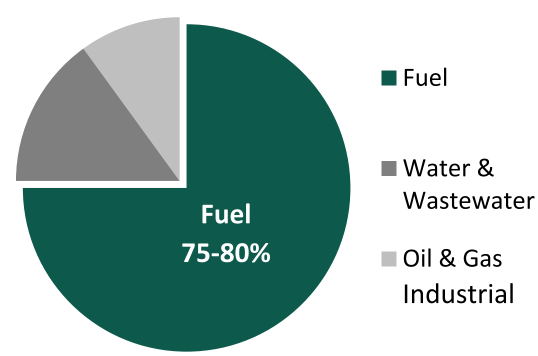
- Fuel
- Water and Wastewater
- Oil and Gas/Industrial

This subtle but important difference enables us to better understand market trends and provide high value added solutions that are designed, manufactured, and delivered to closely meet our customers' needs.

ZCL's strong position in our core Fuel markets' has been built on providing both the best products and the best customer experience in the industry. We feel this strategic focus shift will allow us to apply our success to our emerging markets.

Fuel Markets

Fuel markets is our core segment, representing approximately 75%-80% of revenues. Fuel markets revenue is primarily generated from providing underground storage tanks for the storage of gasoline and diesel fuel for retail outlets in North America.



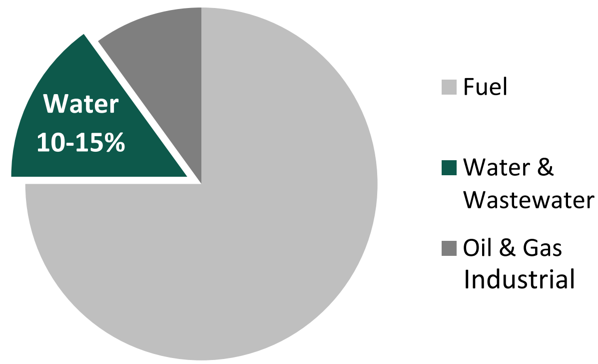
MARKET GROWTH

Over the last five years, revenues in our Fuel markets have grown at a compound annual growth rate of 13%, and we expect future growth to be in the **high single digits annually**.

Future growth will be supported by both "new to industry" construction of retail fuel sites as retail marketers compete for market share, and also by the continued replacement of aging tanks in the installed tank base.

Water & Wastewater Markets

Our emerging Water and Wastewater markets represent approximately 10%-15% of revenues. Water and Wastewater revenue is derived primarily from providing underground storage tanks to several independent market segments including water conservation, fire protection, wastewater, industrial wastewater, plumbing engineered solutions, and potable water.



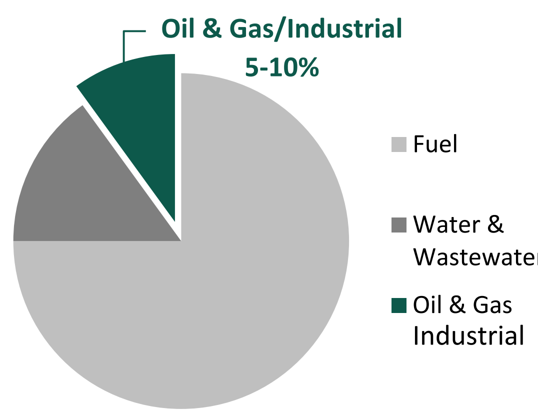
MARKET GROWTH

Revenues in Water and Wastewater markets have grown at a compound annual growth rate of 9% over the last five years. Even though we saw revenues from this segment slightly decline in 2016, we expect future revenue growth to be in the **10%-20% range annually**, in line with our historical growth rates.

Future growth will be supported by the continued growth of industrial, commercial, and residential construction driven by the ongoing economic recovery, evolving water and wastewater effluent management regulations, and the need for conservation and recycling of water as scarcity drives up water pricing.

Oil & Gas/Industrial Markets

Oil & Gas/Industrial markets revenues consist of providing both aboveground and underground tanks and related accessories to upstream and midstream oil and gas, Oil Sands, and industrial markets. Revenues from our Oil & Gas/Industrial Markets have been lower over the past couple of years due to the significant drop in commodity energy prices; we expect a range of 5%-10% of revenues to continue.



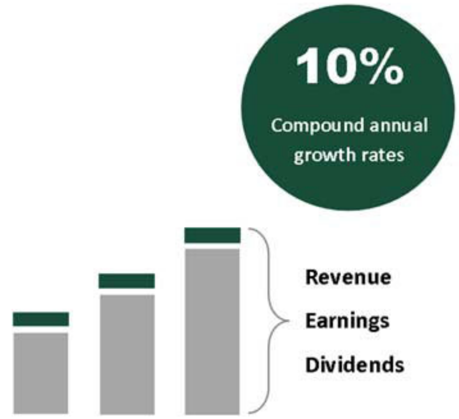
MARKET GROWTH

We expect future revenue growth from this segment to be in the range of **8%-10% annually.** Achieving this growth rate will be partially dependent on a recovery in the upstream oil and gas sector, including the Oil Sands.

Annual **growth** comes in 10's

When taken as a whole, we remain confident in our 10/10/10 Plan of delivering 10% compound annual growth rates in revenues, earnings, and our dividend payout.

While the achievement of these growth rates cannot be assured in any individual year, we believe these are realistic growth rates over the longer term.



Our **vision** is Operational Excellence

Continuous improvement is at the heart of our manufacturing group. In addition to pursuing profitable growth opportunities, we are focused on many new initiatives within manufacturing. During 2016, we demonstrated progress toward more efficient manufacturing operations through our improvement in gross margin, from 21% in 2015 to 24% in 2016.

For 2017 and beyond, we have a number of high value projects underway to continue to drive down manufacturing cost including

- Increased automation,
- Incorporating advanced materials, and
- Implementing process changes.

We are also reinforcing our internal processes in other areas of the company, including human capital management, information technology, and worker safety and hygiene to ensure that ZCL has the platform and resources in place to take advantage of future opportunities as they arise.

Thank you!

As we officially close 2016 and ZCL moves toward celebrating its 30th Anniversary in 2017, our Company continues to work diligently to improve upon this year's achievements and results.

To our loyal shareholders, I want to extend my thanks and appreciation for your continued support. To our employees, I want to thank you for your professionalism, your commitment to quality and safety, and your dedication to **making a lasting difference®**!

Sincerely,

Ronald M. Bachmeier

President & CEO, Director

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, 2016, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2016. 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. Adjusted EBITDA, adjusted EBITDA per diluted share and working capital 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 8, 2017.

CORPORATE PROFILE

ZCL is North America's largest manufacturer and supplier of environmentally friendly fibreglass reinforced plastic ("FRP") underground storage tanks. ZCL has two plants in Canada, four in the US and one in The Netherlands.

The Company's primary product groups are Petroleum Products and Water Products and use the brand identities of ZCL, Xerxes, and Parabeam. In 2016, ZCL was organized under three product segments as follows:

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 markets include onsite wastewater treatment and municipal wastewater collection, dry hydrant cisterns and sprinkler systems, rainwater collection and storm water detention and filtration, grease, oil and solids interceptors and decontamination systems, wash down drainage and leachate treatment and potable water storage.

Industrial Products

ZCL also manufactures and supplies storage tanks, piping and accessories for industrial applications within two limited geographic markets in North America. We manufacture and supply our Industrial Products in Western Canada and the Western US where we have sustaining competitive advantages.

OVERALL PERFORMANCE & OUTLOOK

In 2016, ZCL achieved record revenue and gross profit from continuing operations. We paid off our term debt and our balance sheet remains very strong with working capital of $73.7 million, including a cash balance of $43.2 million as at December 31, 2016.

2016 was a year of transition for ZCL. As previously announced, we made the decision to cease operations in our ZCL Dualam unit and focus our efforts on our Underground Operating Segment where we have significant competitive advantages and we offer a strong unique value proposition to our customers. This transition allows ZCL to focus on further expansion of our core and emerging markets.

As part of our transition, starting in 2017 we have realigned our business into market segments, rather than product segments. These market segments are Fuel, Water and Wastewater, and Oil & Gas/Industrial. For historical comparisons under the new market-based segmentation, please refer to the *'Backlog by Market'* on page 4 and the *'Summary of Quarterly Results'* section on page 11.

We remain committed to being prudent stewards of the capital we have been entrusted to manage, preserving our strong balance sheet while at the same time maintaining the necessary flexibility to take advantage of future growth opportunities as they may arise. While continuing to search out profitable growth opportunities, we are pleased to again demonstrate our commitment to sharing ZCL's success with our shareholders in the form of our announced $0.65 per share special dividend and the 50% increase in our quarterly dividend, from $0.08 per share per quarter ($0.32 per share annually) to $0.12 per share per quarter ($0.48 per share annually).

Financial Results

Revenue

Revenue from continuing operations for the year ended December 31, 2016 was a record $184.1 million, up $19.2 million, or 12%, from $164.9 million for the year ended December 31, 2015. Record revenue was driven by Petroleum Products revenue which increased 15% compared with a year earlier.

Gross Profit

Gross profit from continuing operations for the year ended December 31, 2016 was a record $43.3 million, up $8.1 million, or 23%, from $35.2 million a year earlier. Gross margin from continuing operations was 24% of revenue for 2016, up from 21% a year earlier.

Adjusted EBITDA

Adjusted EBITDA from continuing operations for the year ended December 31, 2016 was a record $33.0 million, up $4.8 million, or 17%, from $28.1 million a year earlier. Adjusted EBITDA as a percentage of revenue was 18% for 2016, up from 17% a year earlier.

Net Income from Continuing Operations

Net income from continuing operations for the year ended December 31, 2016 was $20.0 million, up $2.5 million, or 14%, from $17.5 million a year earlier. Earnings per share from continuing operations for the year ended December 31, 2016 were $0.65, up $0.07, or 12%, from $0.58 per share a year earlier.

Discontinued Operations

For the year ended December 31, 2016, net loss from discontinued operations, being the ZCL Dualam operations, was $5.0 million compared to a net loss of $4.5 million a year earlier. The ZCL Dualam operations ceased during the third quarter of 2016.

Net Income

Net income for the year ended December 31, 2016 was $15.0 million, up $2.0 million, or 15%, from $13.0 million a year earlier. Earnings per share for the year ended December 31, 2016 were $0.49, up $0.06, or 14%, from $0.43 per share a year earlier.

Cash

As at December 31, 2016, ZCL had a cash and cash equivalents ("cash") balance of $43.2 million compared to $38.1 million as at September 30, 2016 and $40.8 million as at December 31, 2015.

Capital Allocation Strategy

ZCL has developed a consistently profitable business model from our core business, and will continue to act in a disciplined and strategic manner when it comes to investing and distributing capital. We are focused on growing shareholder value through a reasonable increase in the quarterly distributions while preserving our balance sheet strength to allow us to act on opportunities as they arise.

The key levers of our capital allocation strategy are:

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

2. Continue to evaluate and pursue non-organic growth opportunities.

3. Continue to distribute cash dividends to shareholders.

1. Funding Organic Growth: 2017 Capital Investment Plan

The initial 2016 capital allocation plan of $5 million was not fully utilized in the year due to leadership changes in manufacturing that resulted in a re-prioritization of capital projects. The 2016 capital allocation spend, which included maintenance capital, amounted to $2.6 million with the bulk of the spend occurring in the second half of the year.

For 2017, ZCL has planned approximately $5 million for capital expenditures (including maintenance capital). Although we have made significant improvements in operational efficiencies in our manufacturing facilities through our ongoing capital investment programs, there are still continuous improvement opportunities available to us in 2017 and beyond.

2. Non-Organic Growth Opportunities

ZCL continues to evaluate non-organic growth opportunities, including mergers and acquisitions, particularly in our emerging markets of Water and Wastewater.

3. Distribute Cash Dividends to Shareholders

With our December 31, 2016 cash position of $43.2 million and no debt, the Board has declared a special dividend of $0.65 per share, or approximately $20 million in total, to be paid out on March 31, 2017, to the shareholders of record as of March 17, 2017.

Additionally, the Board declared a 50% increase in our quarterly dividend to $0.12 per share, up from $0.08 per share previously, to be paid on April 17, 2017, to the shareholders of record as of March 31, 2017. With this increase, we estimate the annual cash cost of the quarterly dividend to be approximately $15 million, compared with approximately $10 million paid in 2016. The increase in the quarterly dividend reflects confidence in our ability to deliver consistent and sustainable funds from operations.

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.

Normal Course Issuer Bid

Although not utilized in 2016, 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

Backlog is defined as the total value of orders that have not yet been included in revenue but which have a contract or purchase order specifying the scope, value and timing of an order.

Backlog by Product Group

($millions)	Dec 31, 2016	Dec 31, 2015	% Change
Petroleum	**29.4**	31.5	(7%)
Water	**3.9**	4.0	(4%)
Industrial	**2.3**	3.0	(23%)
Total	**35.6**	38.5	(7%)

Backlog was $35.6 million as at December 31, 2016, down $2.8 million or 7% from $38.5 million a year earlier. The decrease from a year earlier resulted from a reduction in each of the Product segments.

Petroleum Products backlog of $29.4 million was down $2.1 million or 7% compared to a year earlier. The decrease in Petroleum Products backlog was driven by the change in the foreign exchange rate from 1.39 at December 31, 2015 to 1.34 at December 31, 2016. On a source currency basis, Petroleum Products backlog was down $0.9 million compared to a year earlier with the bulk of the decrease derived from midstream and upstream customers compared with a year earlier.

Water Products backlog of $3.9 million was down 4% compared with a year earlier. The reduction in backlog was reflected in the Canadian backlog which was down $0.1 million compared to a year earlier. On a source currency basis, Water Products backlog was comparable to a year earlier.

Industrial Products backlog of $2.3 million was down $0.7 million from $3.0 million a year earlier. The year over year reduction in backlog was driven by a $1.9 million decrease in Western US backlog, partially offset by a $1.2 million increase in Western Canada.

The total backlog decreased by $10.9 million or 23% from $46.5 million at September 30, 2016 due to the normal seasonal nature of the business. Petroleum Products backlog was down $12.1 million or 29% compared to a quarter earlier. Water Products was down $0.5 million or 12% and Industrial Products backlog was up $1.7 million compared with September 30, 2016.

As noted above, starting in 2017, in order to be more focused on meeting customer needs, we have realigned our business into market segments, rather than product segments. These market segments are Fuel, Water and Wastewater, and Oil & Gas/Industrial. Included below is the summary of backlog by market segment rather than by product segment.

Backlog by Market

($millions)	Dec 31, 2016	Dec 31, 2015	% Change
Fuel	**28.9**	30.5	(5%)
Water & Wastewater	**3.9**	4.0	(4%)
Oil & Gas/Industrial	**2.8**	4.0	(29%)
Total	**35.6**	38.5	(7%)

The most significant change in the backlog reporting is a realignment of upstream and midstream customers from Fuel (primarily Petroleum Products) into the Oil & Gas market segment. Year over year changes in the backlog by market are reflected in the commentary above.

2017 Outlook

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

With the closure and sale of the ZCL-Dualam operations during 2016, ZCL is acutely focused on profitable growth within our core and emerging markets. Our portfolio of products possesses significant competitive advantages and presents a strong value proposition to our customers. In order to better coordinate our efforts and be more customer focused, starting in 2017, we have realigned our business into market segments, rather than product segments. These market segments are Fuel, Water and Wastewater, and Oil & Gas/Industrial.

We remain confident that we will be able to sustain organic compound annual growth rates in both revenues and earnings of 10% over the longer term, however achievement of this growth rate in any individual year cannot be assured. Although our backlog as of December 31, 2016 was slightly lower than a year ago, we are confident that revenue for 2017 will be higher than 2016.

Fuel Markets

Fuel represents our core customer markets. Starting in 2017, we have realigned the North American Fuel markets under one point of sales accountability. Over the last five years, revenues from our Fuel markets have grown at a compound annual growth rate of 13% and we expect future growth to be in the high single digits annually. We anticipate Fuel growth will continue to be led by an increasing number of "new to industry" retail fueling sites, particularly in the US, as larger fuel retailers compete for market share. Accelerating tank replacement programs, due to the aging of the installed tank base, also support our continued growth in this market. For example, one study[1] estimates that 15%-20% of the fuel tanks in service today are older than 30 years, and that 50%-60% are older than 20 years. Increasing pressure from bankers, insurers and regulators, who are motivated to mitigate financial and environmental risk factors by removing older tanks from service, is supporting this replacement activity.

Additionally, although steel tanks make up a relatively small and shrinking percentage of new tanks being sold today, management estimates that the installed tank base is still approximately 40%-50% steel[2]. As today's fuels continue to evolve, a growing awareness of internal corrosion of steel tanks is supporting an increasing rate of replacement demand for this segment of the installed tank base.

A tangible example of increasing concerns about internal corrosion of steel tanks is the recently issued US Environmental Protection Agency ("EPA") Office of Underground Storage Tanks July 2016 Notice of Corrosion Risks in Underground Storage Tanks Storing Diesel Fuel. This widely disseminated notice alerts owners of underground storage tank systems storing diesel fuel that it is recommended to check inside their tanks for corrosion, which research suggests is now appearing on metal equipment in most tank systems. The EPA notice specifically states that "in steel tanks, corrosion can cause direct tank failure and releases to the environment" and "this corrosion also appears to present a risk to the integrity of tanks, especially in the bottom of metal tanks where water and sludge may accumulate." The notice goes on to discuss "severe and rapid corrosion of internal metal components of tanks storing diesel fuel."

Included in Fuel markets is international revenue earned from third party licensees as well as through the sale of Parabeam®, a three-dimensional glass fabric that is manufactured and distributed from the Company's facility in The Netherlands.

Water & Wastewater Markets

Also in 2017, in order to better meet customer needs and focus on Water & Wastewater submarkets where ZCL can deliver the highest value proposition, we have realigned the leadership of our emerging Water & Wastewater market segments under one point of sales accountability. Water and Wastewater consists of providing underground storage tanks to several independent markets including water conservation, fire protection, wastewater, industrial wastewater, plumbing engineered solutions, and potable water.

Over the past five years, revenues in our Water and Wastewater segment have grown at a compound annual growth rate of 9%. Although we did not see revenue growth from this segment in 2016, we expect future revenue growth to be in the 10%-20% range annually, in line with historical growth rates.

Oil & Gas/Industrial Markets

This group's revenues consist of providing both aboveground and underground tanks and related accessories to the upstream and midstream oil and gas, Oil Sands, and industrial markets. We expect future revenue growth from this segment to be in the range of 8%-10% annually. Achieving this growth rate will be partially dependent on a recovery in the upstream oil and gas sector, including the Oil Sands. Revenues from our Oil & Gas/Industrial markets have been lower over the past couple of years due to the significant drop in commodity energy prices; we expect revenue from these markets to continue in the range of 5%-10% of consolidated revenue.

[1] Sources include a study published in October, 2015 from the Association of State and Territorial Solid Waste Management Officials titled "An Analysis of UST Systems Infrastructure in Select States".

[2] Estimates based on management's knowledge of the industry.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Year Ended December 31 2016 $	2015 $	2014 $
Operating Results			
Revenue	**184,123**	164,942	151,767
Gross profit	**43,319**	35,191	33,596
Gross margin	***24%***	*21%*	*22%*
General and administration	**10,499**	9,116	8,996
Foreign exchange loss (gain)	**147**	(1,665)	(648)
Depreciation and amortization	**3,393**	3,374	3,054
Finance expense	**273**	319	383
Loss on disposal of assets	**938**	32	109
Impairment of assets	**46**	-	-
Income tax expense	**8,005**	6,502	5,759
Net income from continuing operations	**20,018**	17,513	15,943
Net (loss) income from discontinued operations	**(5,038)**	(4,514)	373
Net income	**14,980**	12,999	16,316
Earnings per share from continuing operations			
Basic	**0.66**	0.58	0.53
Diluted	**0.65**	0.58	0.52
Earnings per share			
Basic	**0.49**	0.43	0.54
Diluted	**0.49**	0.43	0.54
Cash dividends declared per common share	**0.82**	0.185	0.15
Adjusted EBITDA (*note 1*)	**32,976**	28,147	25,933
Adjusted EBITDA as % of revenue	***18%***	*17%*	*17%*
Adjusted EBITDA per diluted share	**1.07**	0.93	0.85

(in thousands of dollars)	As at December 31 2016 $	2015 $	2014 $
Financial Position			
Cash and cash equivalents	**43,208**	40,770	28,680
Working capital *(note 1)*	**73,737**	76,781	62,868
Total assets	**163,928**	177,544	156,654
Total non-current liabilities	**4,088**	5,015	6,576

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

RESULTS OF OPERATIONS

Revenue

($000s)	Twelve Months 2016	2015	% change
Petroleum Products	**156,247**	135,727	15%
Water Products	**22,947**	23,776	(3%)
Industrial Products	**4,929**	5,439	(9%)
	184,123	164,942	12%

Revenue from continuing operations for the year ended December 31, 2016 was a record $184.1 million, up $19.2 million, or 12%, from $164.9 million in the prior year.

The change in revenue reflects the factors noted below:

Petroleum Products

The record revenue from continuing operations was driven by Petroleum Products revenue of $156.2 million, up $20.5 million, or 15%, from $135.7 million for the year ended December 31, 2015. In the US, on a source currency basis, revenue for the year ended December 31, 2016 was up 11% compared to 2015. Sales to retail petroleum marketers were up 17% while sales to distributors and contractors were up 5% compared to 2015.

Canadian Petroleum Products revenue from continuing operations in 2016 was up $1.9 million or 9% from 2015. The increase over 2015 was driven by a $3.2 million increase in sales to distributors and contractors and a $0.7 million increase in sales to midstream pipeline operators, partially offset by a $1.2 million reduction in sales to major oil customers and a $0.5 million reduction in sales to upstream customers.

Petroleum Products revenue also includes revenue from International operations which were up $3.0 million compared to 2015 due primarily to increased Parabeam® 3-D fabric sales to licensees.

Water Products

Water Products revenue for the year ended December 31, 2016 was $22.9 million, down $0.8 million, or 3%, compared to 2015. Canadian water sales were down $0.3 million compared to 2015. Deferrals in construction spending in the US have contributed to the year over year decrease in Water Product sales in the US.

Industrial Products

Industrial Products revenue of $4.9 million was down $0.5 million or 9% from $5.4 million in 2015. A $2.7 million increase in revenue in the Western US Industrial Products market was more than offset by a $3.3 million decrease in Western Canadian Industrial revenue compared with a year earlier.

The Western US revenue was previously included with Petroleum Products as the manufacturing occurs in our facility in Anaheim, CA, which was a component of our former Underground Operating Segment.

Gross Profit

($000s)	Twelve Months 2016	2015	% change
Gross profit	**43,319**	35,191	23%
Gross margin	***24%***	*21%*	

In 2016, gross profit from continuing operations was $43.3 million, an annual record, up $8.1 million or 23% from $35.2 million in 2015. Gross margin from continuing operations was 24% in 2016, up from 21% in 2015. The gross margin improvement was largely derived from the Petroleum Products group as a result of sales mix factors, productivity improvements and the utilization of the fixed cost base over increased volume.

General and Administration

($000s)	Twelve Months
2016	10,499
2015	9,116
% change	15%

General and administration ("G&A") expense for the year ended December 31, 2016, was up $1.4 million or 15% compared to 2015. The year over year increase was partly due to increased professional fees of $0.5 million incurred in the first quarter of 2016 which are not expected to be replicated.

In addition, long term compensation has increased due to the increase of the market value of the ZCL share price as at the end of December, 2016 compared with a year earlier. Directors are primarily compensated through deferred share unites (DSUs) which are "marked to market" every quarter and were up $0.3 million compared to 2015. As well, performance based compensation recorded in G&A increased $0.3 million compared with a year earlier, reflecting ZCL's record performance and our performance based incentive compensation programs.

Foreign Exchange Loss (Gain)

($000s)	Twelve Months
2016	147
2015	(1,665)

The foreign exchange loss and (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	2016		2015			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	**1.37**	**1.30**	1.24	1.26	10%	3%
Q2	**1.29**	**1.30**	1.23	1.24	5%	5%
Q3	**1.30**	**1.31**	1.31	1.34	1%	(2%)
Q4	**1.34**	**1.34**	1.34	1.39	nil	(4%)
Annual	**1.33**	**1.34**	1.28	1.39	4%	(4%)

euro Conversion Rates

Year Ended	2016		2015			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
Q1	**1.51**	**1.47**	1.40	1.37	8%	7%
Q2	**1.46**	**1.44**	1.36	1.37	7%	5%
Q3	**1.46**	**1.47**	1.45	1.51	1%	(3%)
Q4	**1.44**	**1.42**	1.46	1.51	(1%)	(6%)
Annual	**1.47**	**1.42**	1.42	1.51	4%	(6%)

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
2016	3,393
2015	3,374
% change	1%

Depreciation and amortization expense is comparable to a year earlier.

Loss on Disposal of Assets

($000s)	Twelve Months
2016	938
2015	32

The loss on disposal of assets for the year ended December 31, 2016 of $0.9 million was a result of a change in operational strategy, resulting in the cancellation of certain capital projects and discontinued use of equipment. Due to changes implemented in certain processes to improve productivity, selected manufacturing assets were no longer required and were disposed of in 2016.

Income Taxes

Income tax expense for the year ended December 31, 2016 represented 28.6% of pre-tax income, compared to 27.1% of pre-tax income in 2015. The increase in the tax rate is due to the change in mix of taxable income between the Canadian and US tax jurisdictions.

Disposal of Assets and Discontinued Operations

During 2016, the Company divested certain assets and ceased operations of the former ZCL Dualam operations. The financial results from the former ZCL Dualam operations are included in "Discontinued Operations" in this MD&A.

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
2016	(3,050)
2015	14,210

The foreign translation loss in the year ended December 31, 2016 was due to the weakening of the US dollar relative to the Canadian dollar throughout the year from 1.39 to 1.34. In 2015, the US dollar strengthened from 1.16 to 1.39 generating a gain on the translation of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2016, working capital (current assets less current liabilities) of $73.7 million was down $3.0 million from $76.8 million as at December 31, 2015. The majority of the decrease was a result of a decrease in inventory partially offset by a reduction in accounts payable when compared to a year earlier.

As at December 31, 2016, the Company had cash and cash equivalents of $43.2 million (December 31, 2015 - $40.8 million).

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 under this facility is $20.0 million. The operating facility is due on demand and matures on May 31, 2018.

The Company fully repaid the remaining balance on the term loan during the third quarter of 2016.

Share Capital

During the year ended December 31, 2016, the Company issued 506,885 shares on the exercise of stock options (2015 – 584,108 shares). Also during the year, ZCL refreshed the Normal Course Issuer Bid initially implemented in March, 2015. The Company did not purchase or cancel any shares during the year ended December 31, 2016 (2015 – purchased and cancelled 530,500 shares).

Cash Flows

	Twelve Months	
($000’s)	**2016**	**2015**
Operating activities	**28,994**	23,342
Financing activities	**(23,083)**	(8,470)
Investing activities	**(2,587)**	(3,368)
Foreign exchange(1)	**(573)**	2,188
Discontinued operations	**(313)**	(1,602)
	2,438	12,090

(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 continuing operations and ii) changes in non-cash working capital.

Funds from continuing operations totalled $23.6 million for the year ended December 31, 2016, up $3.0 million from $20.6 million for the year ended December 31, 2015. The increase relative to 2015 is due primarily to the increased earnings from continuing operations compared with a year earlier.

Changes in non-cash working capital totalled $5.4 million for the year ended December 31, 2016 compared to $2.7 million for the year ended December 31, 2015. The major contributing factor to the increase relative to 2015 was the reduction of inventories partially offset by a decrease in accounts payable. In 2015, a reduction of accounts receivable was offset by a more significant decrease in accounts payable.

Financing Activities

Cash flows used in financing activities were $23.1 million for the year ended December 31, 2016 compared to $8.5 million for the year ended December 31, 2015. The increase in cash outflows relating to financing activities in 2016 compared to a year earlier, was primarily due to an increase in dividends paid. In 2016, dividends paid were $24.0 million, an increase of $18.8 million over $5.3 million paid in 2015. In 2015, $3.2 million was used to repurchase shares, at an average price of $6.10 per share, through the Normal Course Issuer Bid implemented in March, 2015. No shares were repurchased or cancelled in 2016.

Investing Activities

The cash flows used in investing activities were $2.6 million for the year ended December 31, 2016 compared to $3.4 million for 2015. The decrease in 2016 resulted from purchases of property, plant and equipment and intangible assets which were $0.8 million lower in 2016 than 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 $1.5 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, 2016, the performance letters of credit issued totalled $0.5 million.

As at December 31, 2016, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled $12.0 million.

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

($000s)	**Operating Leases**
2017	2,559
2018	2,236
2019	1,781
2020	1,607
2021	1,382
Thereafter	4,001
Total	13,566

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for $36,000 (2015 - $23,000) for the year ended December 31, 2016, 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, 2016 included $nil (December 31, 2015 - $6,000) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

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 US to Canadian dollar conversion rate has ranged from a low of 1.24 in the second quarter of 2015 to a high of 1.39 in the fourth quarter of 2015.

For the three months ended	**2016**				**2015**			
(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 by Product Group:								
Petroleum Products	39,820	50,525	36,069	29,835	35,467	47,334	33,811	19,114
Water Products	6,433	5,902	6,213	4,398	6,758	6,794	6,783	3,441
Industrial Products	349	1,458	2,437	684	2,173	1,508	875	884
Total revenue	46,602	57,885	44,719	34,917	44,398	55,636	41,469	23,439
Net income								
Continuing operations	5,749	7,741	4,396	2,132	4,774	7,896	3,883	960
Discontinued operations *(note 1)*	146	(1,249)	(2,842)	(1,093)	(889)	(2,691)	(483)	(451)
Total	5,895	6,492	1,554	1,039	3,885	5,205	3,400	509
Adjusted EBITDA *(note 2)*	9,418	12,125	7,387	4,046	7,062	12,172	6,619	2,293
Basic and diluted earnings per share								
Continuing operations	0.19	0.25	0.14	0.07	0.16	0.26	0.13	0.03
Total	0.19	0.21	0.05	0.03	0.13	0.17	0.11	0.02
Adjusted EBITDA per diluted share *(note 2)*	0.30	0.39	0.24	0.13	0.23	0.40	0.22	0.07
Dividends declared per share	0.08	0.08	0.08	0.58	0.05	0.045	0.045	0.045

Note 1: The discontinued operations are the ZCL Dualam operations which were exited in the third quarter of 2016, due to continued and expected future operating losses.
Note 2: Adjusted EBITDA and adjusted EBITDA per diluted share are non-IFRS measures and are defined later in this MD&A under "Non-IFRS Measures."

As discussed in the Outlook section earlier in this MD&A, starting in 2017, ZCL has realigned the organization to reflect a customer and market based approach, rather than a product group approach. As a result, revenue will be reported using a market based approach. To provide some historical context of implication of the change, below is a summary of revenue from continuing operations by market.

For the three months ended	**2016**				**2015**			
(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 by Market:								
Fuel	39,030	49,664	34,978	29,119	34,501	46,278	32,936	18,586
Water & Wastewater	6,433	5,902	6,213	4,398	6,758	6,794	6,783	3,441
Oil & Gas/Industrial	1,139	2,319	3,528	1,400	3,139	2,564	1,750	1,412
Total revenue	46,602	57,885	44,719	34,917	44,398	55,636	41,469	23,439

FOURTH QUARTER RESULTS

Selected Financial Information

(in thousands of dollars, except per share amounts)	Fourth Quarter Ended December 31 2016 $	2015 $
Operating Results		
Revenue	**46,602**	44,398
Gross profit	**11,633**	8,976
Gross margin (note 1)	***25%***	*20%*
General and administration	**2,784**	2,264
Foreign exchange gain	**(496)**	(234)
Depreciation and amortization	**858**	918
Finance expense	**51**	73
Loss on disposal of assets	**943**	3
Income tax expense	**1,744**	1,178
Net income from continuing operations	**5,749**	4,774
Net income (loss) from discontinued operations	**146**	(889)
Net income	**5,895**	3,885
Earnings per share from continuing operations		
Basic and diluted	**0.19**	0.16
Earnings per share		
Basic and diluted	**0.19**	0.13
Cash dividends declared per common share	**0.08**	0.05
Adjusted EBITDA (*note 1*)	**9,418**	7,062
Adjusted EBITDA as a % of revenue	***20%***	*16%*
Adjusted EBITDA per diluted share	**0.30**	0.23

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

Overall Fourth Quarter Performance

Net income from continuing operations in the fourth quarter of 2016 was $5.7 million, up $1.0 million, or 20%, from $4.8 million a year earlier. Earnings per diluted share from continuing operations in the fourth quarter of 2016 were $0.19, up $0.03, or 19%, from $0.16 per diluted share from continuing operations a year earlier.

Net income in the fourth quarter of 2016 was $5.9 million, up $2.0 million or 52% from $3.9 million a year earlier. Earnings per share were $0.19, up $0.06, or 46%, from $0.13 in the fourth quarter of 2015. The increase in net income and earnings per share was primarily a result of higher revenues and improved operational performance in 2016 compared with the fourth quarter of 2015.

Revenue

	Fourth Quarter		
($000s)	2016	2015	% change
Petroleum Products	**39,820**	35,468	12%
Water Products	**6,433**	6,758	(5%)
Industrial Products	**349**	2,172	(84%)
	46,602	44,398	5%

Revenue from continuing operations for the fourth quarter ended December 31, 2016, was $46.6 million, up $2.2 million, or 5%, from $44.4 million in the fourth quarter of 2015. A 12% increase in Petroleum Products revenue was partially offset by a reduction in Water Products and Industrial Products compared with a year earlier. ZCL was able to finish the year strong and revenues were not impeded by weather or construction scheduling factors that periodically impact fourth quarter results.

The change in revenue reflects the factors noted below:

Petroleum Products

In the fourth quarter of 2016, Petroleum Products revenue was $39.8 million, up $4.4 million or 12% from $35.5 million in the same period last year. The increase was primarily attributable to the Canadian Petroleum Products market, which was up $2.0 million compared with a year earlier. The Canadian pre-order program was higher in the fourth quarter, compared with a year earlier. The increase was primarily driven by increased sales to distributors and contractors which were up $1.2 million compared to the fourth quarter of 2015. In addition, sales to retail petroleum marketers were up $0.5 million compared to the same quarter a year earlier.

In the US market, source currency sales were up $0.8 million compared to the fourth quarter of 2015. Sales to distributors and contractors were up 12%, while sales to retail petroleum marketers were up 2% compared to the fourth quarter of 2015.

Petroleum Products also includes revenue from international operations, which was up $1.2 million compared to the fourth quarter of 2015, primarily due to increased sales of Parabeam® 3-D fabric to licensees compared with a year earlier.

Water Products

Water Products revenue for the fourth quarter of 2016 of $6.4 million was down $0.3 million, or 5%, from $6.8 million in the fourth quarter of 2015. An increase in US Water sales was more than offset by a decrease in Canadian Water sales.

Industrial Products

Industrial Products revenue of $0.3 million in the fourth quarter of 2016 was $1.8 million, or 84%, lower than $2.2 million in the same quarter a year earlier with the decrease attributable to the Canadian markets. Revenue earned in the fourth quarter of 2016 was largely derived from our Western US operations. A portion of the US backlog as at September 30, 2016 was still in process as at the end of the fourth quarter of 2016. In the fourth quarter of 2015, the bulk of the revenue earned was derived from the Western Canadian operations.

Gross Profit

	Fourth Quarter		
($000s)	2016	2015	% change
Gross profit	**11,633**	8,976	30%
Gross margin	***25%***	*20%*	

In the fourth quarter of 2016, gross profit from continuing operations was $11.6 million, up $2.7 million, or 30%, from $9.0 million in the fourth quarter of 2015. Gross margin from continuing operations was 25%, up five percentage points from 20% in the fourth quarter of 2015.

Strong fourth quarter 2016 results from the Canadian and International divisions in particular, enabled the gross margin to remain in-line with the third quarter of 2016 and resulted in the improvement compared with the same quarter a year earlier.

General and Administration

($000s)	Fourth Quarter
2016	2,784
2015	2,264
% change	23%

General and administration ("G&A") expense of $2.8 million for the fourth quarter ended December 31, 2016 was up $0.5 million or 23% over the fourth quarter of 2015. The increase was primarily the result of performance based compensation recorded in G&A in the fourth quarter of 2016, up $0.3 million compared with a year earlier. The increase in performance based compensation reflects ZCL's record performance in 2016. In addition, long term compensation has increased due to the rise in market value of the ZCL share price as at the end of December, 2016 compared with September, 2016. Directors are primarily compensated through deferred share units (DSUs) which are "marked to market" every quarter.

Foreign Exchange Gain

($000s)	Fourth Quarter
2016	(496)
2015	(234)

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	2016		2015			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
USD	**1.34**	**1.34**	1.34	1.39	nil	(4%)
euro	**1.44**	**1.42**	1.46	1.51	(1%)	(6%)

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
2016	858
2015	918
% change	(7%)

Depreciation and amortization expense for the quarter ended December 31, 2016 of $0.9 million was comparable to the quarter ended December 31, 2015.

Loss on Disposal of Assets

($000s)	Fourth Quarter
2016	943
2015	3

The loss on disposal of assets for the fourth quarter of 2016 of $0.9 million was a result of a change in operational strategy, resulting in the cancellation of certain capital projects and discontinued use of equipment. Due to changes implemented in certain processes to improve productivity, selected manufacturing assets were no longer required and were therefore disposed of in the fourth quarter of 2016.

Income Taxes

Income tax expense for the three months ended December 31, 2016, represented 23% of pre-tax income, compared to 20% of pre-tax income in the same quarter of 2015. The fourth quarter adjustment in the effective tax rate is a result of our jurisdictional income differing from expectations in previous quarters.

Disposal of Assets and Discontinued Operations

During the third quarter of 2016, the Company divested certain assets and ceased operations of the former ZCL Dualam operations. The financial results from the former ZCL Dualam operations are included in "Discontinued Operations" in this MD&A. The net income from discontinued operations in the fourth quarter of 2016 of $0.1 million primarily resulted from the recovery of an allowance for doubtful account that was collected during the fourth quarter of 2016.

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
2016	1,841
2015	2,999

The foreign translation gain in the fourth quarter of 2016 was due to strengthening of the US dollar relative to the Canadian dollar throughout the three months from 1.31 to 1.34. In the fourth quarter of 2015, the US dollar also strengthened from 1.34 to 1.39.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of $73.7 million as at December 31, 2016, was an increase over the $68.3 million at September 30, 2016. 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 credit 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, 2016.

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, 2016. 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, 2016, was as follows:

(in thousands of US dollars)	$
Foreign operations	27,119
Domestic operations	11,256
Net balance sheet exposure	38,374

Operating exposure for the twelve months ended December 31, 2016, was as follows:

(in thousands of US dollars)	$
Sales	120,036
Operating expenses	98,036
Net operating exposure	22,000

The weighted average US to Canadian dollar translation rate was 1.33 for the year ended December 31, 2016. The translation rate as at December 31, 2016, was 1.34.

Based on the foreign currency exposures noted above, with other variables unchanged, a 20% change in the Canadian dollar would have impacted net income for the twelve months ended December 31, 2016, as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	1,677
Net operating exposure of foreign operations	2,671
Change in net income	4,348

Other comprehensive income would have changed $3.5 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 and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for trade and other accounts receivable are managed through established credit monitoring activities. 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 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, 2016, one customer exceeded 10% of the consolidated trade accounts receivable balance. The Company has no concerns regarding the collectability of this 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 $25.0 million as at December 31, 2016 (December 31, 2015 - $24.5 million). On a geographic basis as at December 31, 2016, approximately 16% (December 31, 2015 – 22%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 84% (December 31, 2015 – 78%) 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 2015.

Payment terms are generally net 30 days. As at December 31, 2016, the percentages of trade accounts receivable were as follows:

	December 31, 2016	**December 31, 2015**
Current	**50%**	51%
Past due 1 to 30 days	**26%**	26%
Past due 31 to 60 days	**13%**	11%
Past due 61 to 90 days	**9%**	6%
Past due greater than 90 days	**2%**	6%
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 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.

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 Fuel, Water and Wastewater, Oil and Gas, and Industrial 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.

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, 2016 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 independent actuary. The actual costs of claims may vary from those estimates, and the difference may be material.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to 30 years for corrosion, if the products are properly installed and are used solely for storage of specified liquids. In Canada, 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

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 IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization; IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts (ii) Applicability of the amendments to IFRS 7 to condense interim financial statements; and IAS 34 Interim Financial Reporting which provides clarification surrounding interim disclosures.

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:

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

(a) Sale of tanks and related products:

Contracts with customers in which the sale of tanks and accessories are generally expected to be the only performance obligation are not expected to have any impact on the Company's profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods. In preparing for IFRS 15, the Company is considering the following:

(i) *Warranty obligations*

The Company generally warrants its product for a period of one year after sale for manufacturing defects. As such, the Company expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

(b) Royalty revenue:

The Company earns royalty revenue from licensees who use the Company's intellectual property in their manufacturing processes for double-wall tanks. The royalty agreements involve minimum royalty payments as well as royalty payments based off a percentage of the licensee's third party sales of product. As such the Company expects such royalties will be treated as usage-based royalties and revenue from the royalties will be recognized as the licensees sell their product to third parties. This is consistent with the Company's current revenue recognition policy for royalty revenue.

(c) *Presentation and disclosure requirements:*

The Company is currently in the process of assessing the impact the additional IFRS 15 disclosures will have on the notes to the financial statements.

IFRS 16: Leases

In January 2016, IFRS 16 Leases was issued and replaced IAS 17 Leases. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, the lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The standard requires the Lessee to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective January 1, 2019, on either a full retrospective or modified retrospective approach. The Company is assessing the impact of adoption of this standard to its consolidated financial statements.

IFRS 2 Amendments: Share-based Payments

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, the Company is required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its consolidated financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of ZCL on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016 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, 2016, 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, 2016, 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. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute assurance that the objectives of the control system are met.

OUTSTANDING SHARE DATA

As at March 8, 2017, there were 30,786,755 common shares and 819,612 share options outstanding. Of the options outstanding, 488,943 are currently exercisable into common shares. In 2016, ZCL repurchased and cancelled nil shares through the Normal Course Issuer Bid ("NCIB"). In the prior year ended December 31, 2015, 530,500 shares were repurchased and cancelled through the NCIB 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

This MD&A includes references to and uses measures and terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. Included in non-IFRS measures is adjusted EBITDA, adjusted EBITDA per diluted share and working capital. The Company uses non-IFRS measures to make strategic decisions and set targets and believes that these non-IFRS measures are useful for providing securities analysts, investors, and other interested parties with additional information to assist them in understanding components of our financial results. This includes a more complete understanding of factors and trends affecting our operating performance. Non-IFRS measures also provide supplemental measures of operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

Tables calculating or reconciling these non-IFRS measures, where applicable, have been included on the next page.

Adjusted EBITDA is defined as income from continuing operations before finance expense, income taxes, depreciation of property, plant and equipment, amortization of intangible assets, share-based compensation, gains or losses on sale of assets, and impairment of assets.

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

Readers are cautioned that adjusted EBITDA and adjusted EBITDA per diluted share should not be construed as an alternative to net income and net income per diluted share as determined in accordance with IFRS. The Company discloses adjusted EBITDA and adjusted EBITDA per diluted share as management considers that these measures provide additional clarity of the Corporation's operational performance to the readers of the MD&A. These adjustments to EBITDA include, among other things, non-cash gains and losses on disposal of assets, non-cash impairment charges and non-cash share-based compensation. The exclusion of these items does not indicate that they are non-recurring; management considers them to be non-operational. By removing non-operational items, readers of the MD&A will have a more complete understanding of factors and trends affecting ZCL's operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

Working capital is defined as current assets less current liabilities. The Company discloses working capital in order to provide users of the MD&A a measure of the Company's liquidity and ability to pay current liabilities.

RECONCILIATION OF NON-IFRS MEASURES

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2016	**2015**	**2016**	**2015**	**2014**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income from continuing operations	**5,749**	4,774	**20,018**	17,513	15,943
Adjustments:					
Depreciation and amortization	**858**	918	**3,393**	3,374	3,054
Finance expense	**51**	73	**273**	319	383
Income tax expense	**1,744**	1,178	**8,005**	6,502	5,759
Share-based compensation	**73**	116	**303**	407	685
Loss on disposal of property, plant & equipment	**943**	3	**938**	32	109
Loss on impairment of property, plant and equipment	**-**	-	**46**	-	-
Adjusted EBITDA	**9,418**	7,062	**32,976**	28,147	25,933
Adjusted EBITDA as a percentage of revenue	**20%**	16%	**18%**	17%	17%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2016	**2015**	**2016**	**2015**	**2014**
Numerator (in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Adjusted EBITDA	**9,418**	7,062	**32,976**	28,147	25,933
Denominator (in thousands)					
Weighted average shares outstanding - basic	**30,682**	30,018	**30,515**	30,200	29,963
Effect of dilutive securities:					
Stock options	**332**	185	**233**	165	416
Weighted average shares outstanding - diluted	**31,013**	30,203	**30,748**	30,365	30,379
Adjusted EBITDA per diluted share	**0.30**	0.23	**1.07**	0.93	0.85

The following table presents the calculation of working capital.

	As at		
	December 31, 2016	**December 31, 2015**	**December 31, 2014**
(in thousands of dollars)	**$**	**$**	**$**
Current assets	**99,482**	**105,032**	89,550
Current liabilities	**25,745**	**28,251**	26,682
Working capital	**73,737**	**76,781**	62,868

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 Fuel, Water and Waste Water, Industrial, Oil and Gas and International markets, efforts to reduce administrative and production costs, manage production levels, anticipated capital expenditure trends, activity in the fuel 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 Fuel, Water and Waste Water, Oil and Gas, and Industrial 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, 2016 and 2015

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, 2016 and 2015, and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **ZCL Composites Inc.** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada
March 8, 2017

Ernst & Young LLP
Chartered Professional Accountants

MANAGEMENT'S REPORT

March 8, 2017

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 Canadian 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, 2016 $	December 31, 2015 $
ASSETS		
Current		
Cash and cash equivalents *[note 10]*	**43,208**	40,770
Accounts receivable *[note 21]*	**25,308**	25,414
Inventories *[note 5]*	**27,214**	35,124
Income taxes recoverable	**1,589**	1,932
Prepaid expenses	**2,163**	1,792
	99,482	105,032
Property, plant and equipment *[note 7]*	**27,001**	31,205
Assets held for sale	**—**	1,236
Intangible assets *[note 8]*	**1,466**	2,994
Goodwill *[note 24]*	**35,979**	37,077
TOTAL ASSETS	**163,928**	177,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**15,769**	18,285
Dividends payable *[note 14]*	**2,462**	1,513
Income taxes payable	**625**	1,430
Deferred revenue	**5,384**	4,324
Current portion of provisions *[note 10]*	**1,505**	1,024
Current portion of long term debt *[note 11]*	**—**	1,317
Current portion of finance lease *[note 12]*	**—**	358
	25,745	28,251
Deferred tax liabilities *[note 18]*	**2,822**	3,929
Long term portion of provisions *[note 10]*	**1,266**	1,086
TOTAL LIABILITIES	**29,833**	33,266
Shareholders' equity		
Share capital *[note 15]*	**79,310**	76,066
Contributed surplus *[note 16]*	**1,987**	2,357
Accumulated other comprehensive income	**12,166**	15,216
Retained earnings	**40,632**	50,639
TOTAL SHAREHOLDERS’ EQUITY	**134,095**	144,278
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**163,928**	177,544

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)	**2016** **$**	**2015** **$**
Revenue	**184,123**	164,942
Manufacturing and selling costs *[note 6]*	**140,804**	129,751
Gross profit	**43,319**	35,191
General and administration	**10,499**	9,116
Foreign exchange loss (gain)	**147**	(1,665)
Depreciation and amortization *[notes 7 and 8]*	**3,393**	3,374
Finance expense	**273**	319
Loss on disposal of property, plant and equipment	**938**	32
Loss on impairment of property, plant and equipment	**46**	—
	15,296	11,176
Income before income taxes	**28,023**	24,015
Income tax expense (recovery) *[note 18]*		
Current	**9,065**	7,196
Deferred	**(1,060)**	(694)
	8,005	6,502
Net income from continuing operations	**20,018**	17,513
Net loss from discontinued operations *[note 17]*	**(5,038)**	(4,514)
Net income	**14,980**	12,999
Earnings per share from continuing operations *[note 19]*		
Basic	**$0.66**	$0.58
Diluted	**$0.65**	$0.58
Loss per share from discontinued operations *[note 19]*		
Basic	**($0.17)**	($0.15)
Diluted	**($0.16)**	($0.15)
Earnings per share *[note 19]*		
Basic	**$0.49**	$0.43
Diluted	**$0.49**	$0.43

See accompanying notes

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of dollars)	2016 $	2015 $
Net income	**14,980**	12,999
Translation of foreign operations	**(3,050)**	14,210
Total items that will be reclassified subsequently to net income	**(3,050)**	14,210
Comprehensive income	**11,930**	27,209

Consolidated Statements of Shareholders' Equity

For the years ended December 31,

(in thousands)	Common Shares \#	Share Capital $	Contributed Surplus $	Accumulated Other Comprehensive Income $	Retained Earnings $	Total $
Balance, December 31, 2015	**30,267**	**76,066**	**2,357**	**15,216**	**50,639**	**144,278**
Share-based payments *[note 16]*	**—**	**—**	**303**	**—**	**—**	**303**
Shares issued on exercise of stock options *[notes 15 & 16]*	**507**	**2,571**	**—**	**—**	**—**	**2,571**
Reclassification of fair value of stock options previously expensed *[note 16]*	**—**	**673**	**(673)**	**—**	**—**	**—**
Translation of foreign operations	**—**	**—**	**—**	**(3,050)**	**—**	**(3,050)**
Dividends declared *[note 14]*	**—**	**—**	**—**	**—**	**(24,987)**	**(24,987)**
Net income	**—**	**—**	**—**	**—**	**14,980**	**14,980**
Balance, December 31, 2016	**30,774**	**79,310**	**1,987**	**12,166**	**40,632**	**134,095**
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 & 16]*	584	2,103	—	—	—	2,103
Shares repurchased through normal course issuer bid *[note 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

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of dollars)	2016 $	2015 $
CASH FLOWS FROM CONTINUING OPERATIONS		
Net income from continuing operations	**20,018**	17,513
Add (deduct) items not affecting cash:		
Depreciation and amortization *[notes 7 & 8]*	**3,393**	3,374
Deferred tax recovery	**(1,060)**	(694)
Share-based compensation expense *[note 16]*	**303**	407
Loss on disposal of property, plant and equipment	**938**	32
Loss on impairment of property, plant and equipment	**46**	—
Funds from continuing operations	**23,638**	20,632
Changes in non-cash working capital:		
(Increase) decrease in accounts receivable	**(212)**	6,525
Decrease in inventories	**6,833**	171
Increase in prepaid expenses	**(424)**	(577)
Decrease in accounts payable, accrued liabilities and provisions	**(1,402)**	(3,784)
Increase in deferred revenue	**812**	98
(Decrease) increase in income taxes payable	**(251)**	277
Total changes in non-cash working capital	**5,356**	2,710
Cash flows from operating activities	**28,994**	23,342
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares on the exercise of stock options *[notes 15 & 16]*	**2,571**	2,103
Repurchase of shares through Normal Course Issuer Bid *[note 15]*	**—**	(3,247)
Dividends paid *[note 14]*	**(24,038)**	(5,285)
Repayment of long term debt *[note 11]*	**(1,258)**	(1,684)
Repayment of finance lease *[note 12]*	**(358)**	(357)
Cash flows used in financing activities	**(23,083)**	(8,470)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 7]*	**(2,536)**	(3,381)
Disposal of property, plant and equipment *[note 7]*	**23**	13
Purchase of intangible assets *[note 8]*	**(74)**	—
Cash flows used in investing activities	**(2,587)**	(3,368)
Foreign exchange (loss) gain on cash held in foreign currency	**(573)**	2,188
Cash flows used in discontinued operations *[note 17]*	**(313)**	(1,602)
Increase in cash and cash equivalents	**2,438**	12,090
Cash and cash equivalents, beginning of the year	**40,770**	28,680
Cash and cash equivalents, end of the year	**43,208**	40,770

See accompanying notes

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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 storage tanks and related products and accessories. The Company also produces and sells in-situ fibreglass tank and tank lining systems and three dimensional glass fabric material.

2. BASIS OF PRESENTATION

The consolidated financial statements 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 8, 2017.

Basis of consolidation

The consolidated financial statements of the Company include the accounts of ZCL Composites Inc. and its subsidiaries including Parabeam Industries BV, Radigan Insurance Inc., ZCL International SRL, ZCL-Dualam Inc., C.P.F. Dualam (U.S.A.) Inc., Troy Mfg. (Texas), Inc. and Xerxes Corporation.

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.

Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the consolidated financial statements have been discussed in the individual notes of the related financial statement line items. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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%-40%
Automotive equipment	30%

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

Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The Company estimates the recoverable amount by using the fair value less costs of disposal approach. It estimates fair value using an income approach based on discounted after-tax cash flow projections and 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 cash-generating units ("CGUs"), including a sensitivity analysis, are disclosed and further explained in note 24.

For the purposes of assessing impairment, assets are grouped into 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 independent 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.

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.

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, 2016 and 2015, the Company did not have any held to maturity investments on the consolidated balance sheets.

Available for sale financial instruments:
As at December 31, 2016 and 2015, 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, 2016 and 2015, 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 accrued liabilities. 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. 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 and granted 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.

Cash-settled transactions:
Cash-settled share-based payments consist of Performance Share Units ("PSU") granted to named executive officers of the Company and Deferred Share Units ("DSU") granted to directors of the Company. PSUs granted vest over a three year period and are amortized over the vesting period. DSUs granted are recorded at fair value at the date of issuance and the liability is measured at fair value at each balance sheet date.

Income taxes

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

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

- Where the temporary difference arises from the initial recognition of goodwill; or
- Where the temporary difference is associated with investments in subsidiaries 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.

As a lessee:
Leases in which the Company does not receive substantially all the risks and benefits of ownership of an asset are classified as operating leases. Where a lease transfers substantially all the risks and benefits of ownership to the Company, a finance lease obligation is recognized at the present value of the minimum future lease payments or the fair value of the leased property, whichever is lower. Future minimum lease payments are apportioned between reducing the finance lease obligation and finance expenses at the implied rate of interest for the finance lease.

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 IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization; IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts (ii) Applicability of the amendments to IFRS 7 to condense interim financial statements; and IAS 34 Interim Financial Reporting which provides clarification surrounding interim disclosures.

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:

IFRS 15: Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company plans to adopt the new standard on the required effective date. During 2016, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

(a) *Sale of tanks and related products:*
Contracts with customers in which the sale of tanks and accessories are generally expected to be the only performance obligation are not expected to have any impact on the Company's profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods. In preparing for IFRS 15, the Company is considering the following:

(i) *Warranty obligations*
The Company generally warrants its product for a period of one year after sale for manufacturing defects. As such, the Company expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice. The Company is currently evaluating the effect IFRS 15 will have on longer term warranty arrangements.

(b) *Royalty revenue:*
The Company earns royalty revenue from licensees who use the Company's intellectual property in their manufacturing processes for double-wall tanks. The royalty agreements involve minimum royalty payments as well as royalty payments based off a percentage of the licensee's third party sales of product. As such the Company expects such royalties will be treated as usage-based royalties and revenue from the royalties will be recognized as the licensees sell their product to third parties. This is consistent with the Company's current revenue recognition policy for royalty revenue.

(c) *Presentation and disclosure requirements:*
The Company is currently in the process of assessing the impact the additional IFRS 15 disclosures will have on the notes to the financial statements.

IFRS 16: Leases

In January 2016, IFRS 16 Leases was issued and replaced IAS 17 Leases. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, the lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The standard requires the Lessee to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective January 1, 2019, on either a full retrospective or modified retrospective approach. The Company is assessing the impact of adoption of this standard to its consolidated financial statements.

IFRS 2 Amendments: Share-based Payments

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, the Company is required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its consolidated financial statements.

5. INVENTORIES

As at (in thousands of dollars)	December 31, 2016 $	December 31, 2015 $
Raw materials	**9,931**	14,420
Work in progress	**3,589**	4,051
Finished goods	**13,694**	16,653
	27,214	35,124

During the year ended December 31, 2016 there was a write-down of $690,000 (December 31, 2015 - $18,000) of inventory to its net realizable value. This write-down is included in the net loss from discontinued operations.

6. MANUFACTURING AND SELLING COSTS

For the years ended December 31,

(in thousands of dollars)	2016 $	2015 $
Raw materials and consumables used	**63,421**	59,258
Labour costs	**29,626**	28,161
Other costs	**44,336**	43,737
Net change in inventories of finished goods and work in progress	**3,421**	(1,405)
	140,804	129,751

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land $	Buildings $	Leaseholds $	Manufacturing Equip. $	Office Equip. $	Auto Equip. $	Total $
Cost							
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
Additions	—	51	502	1,669	249	245	2,716
Disposals	—	(5)	(801)	(4,329)	(1,880)	(610)	(7,625)
Foreign exchange	—	(78)	(92)	(559)	(39)	(35)	(803)
As at December 31, 2016	**5,821**	**7,174**	**5,281**	**28,698**	**2,368**	**360**	**49,702**
Accumulated Depreciation							
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
Depreciation	—	189	369	1,708	341	105	2,712
Disposals	—	(1)	(801)	(2,578)	(1,827)	(539)	(5,746)
Impairment	—	—	780	990	16	119	1,905
Foreign exchange	—	(11)	(69)	(249)	(35)	(15)	(379)
As at December 31, 2016	**—**	**2,701**	**3,734**	**14,369**	**1,850**	**47**	**22,701**
Carrying Amount							
As at December 31, 2015	5,821	4,682	2,217	17,419	683	383	31,205
As at December 31, 2016	**5,821**	**4,473**	**1,547**	**14,329**	**518**	**313**	**27,001**

Capital work in progress of $623,000 (December 31, 2015 - $181,000) is included above and not subject to depreciation. Included in this figure is $168,000 for manufacturing equipment and $455,000 in leasehold improvements.

During the three months ended June 30, 2016, the Company identified indicators of impairment and performed an impairment analysis on the property, plant and equipment of ZCL Dualam and its subsidiaries. As a result, impairment charges of $944,000 on manufacturing equipment, $780,000 on leasehold improvements, $119,000 on automotive equipment and $16,000 on office equipment, for a total of $1,859,000, were recognized in the period to reduce the carrying amount of the assets to their fair value less costs of disposal. Subsequently, during the three months ended September 30, 2016, the Company exited the Dualam operations.

In addition, a specific impairment charge of $46,000 was recognized on an item of manufacturing equipment in the continuing operations of the Company.

8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships $	Brands $	Internally Developed ERP Software $	Other $	Total $
Cost					
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
Additions	—	—	—	74	74
Foreign exchange	(253)	(125)	(71)	(41)	(490)
As at December 31, 2016	**8,483**	**4,543**	**3,901**	**5,131**	**22,058**
Accumulated Amortization					
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
Amortization	106	388	383	105	982
Impairment	24	—	56	481	561
Foreign exchange	(248)	(104)	(39)	(40)	(431)
As at December 31, 2016	**8,466**	**4,477**	**2,671**	**4,978**	**20,592**
Carrying Amount					
As at December 31, 2015	152	475	1,701	666	2,994
As at December 31, 2016	**17**	**66**	**1,230**	**153**	**1,466**

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

The intangible assets acquired in January, 2010, as part of the C.P.F. Dualam acquisition, were tested for impairment during the three months ended June 30, 2016. As a result, impairment charges of $481,000 on non-patented technology, $24,000 on customer relationships and $56,000 on software, for a total of $561,000, were recognized in the year as these intangible assets no longer had ongoing value to the Company.

9. BANK INDEBTEDNESS – OPERATING CREDIT FACILITY

The Company's operating credit facility was not in use at December 31, 2016 and December 31, 2015. 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, 2018; however it is typically renewed on an annual basis with the Company's primary lender. The rate of interest charged on the borrowings under operating credit facility for Canadian dollar balances is prime plus 25 basis points. The rate of interest charged on the borrowings under 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, and an unlimited guarantee supported by a general security agreement from Xerxes Corporation, the Company's subsidiary. 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, 2016, 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, 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
Amounts used against the provision	(1,270)	(244)	(241)	(1,755)
Additional provision	1,624	450	388	2,462
Foreign exchange	(16)	(26)	(4)	(46)
As at December 31, 2016	**1,214**	**1,266**	**291**	**2,771**

Of the $2,771,000 (2015 - $2,110,000) in provisions described above, the Company expects $1,505,000 (2015 - $1,024,000) to settle within 12 months of the balance sheet date. The remaining $1,266,000 (2015 - $1,086,000) 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 independent 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 sheets, management does not expect these amounts to materially exceed the provisions accrued for self-insured liabilities.

Included in cash and cash equivalents is $4,204,000 US dollars (2015 - $3,719,000 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 financial 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 year, 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, 2016 $	December 31, 2015 $
Term loan	—	1,317
Total long term debt	—	—
Less current portion	—	1,317
	—	—

During the year ended December 31, 2016, the Company repaid the balance of the term loan.

12. FINANCE LEASE

During the year ended December 31, 2016, the Company repaid the balance of the finance lease.

13. COMMITMENTS

Lease Commitments

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

(in thousands of dollars)	$
2017	2,559
2018	2,236
2019	1,781
2020	1,607
2021	1,382
Thereafter	4,001
	13,566

Other Contractual Obligations

The Company has provided a letter of credit in the amount of $0.3 million (2015 - $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 $1.5 million (2015 - $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, 2016, the issued performance letters of credit totalled $0.5 million (2015 - $1.1 million).

14. DIVIDENDS

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

2016				2015			
Declared	**Per share**	**Paid to shareholders**	**Total $**	**Declared**	**Per share**	**Paid to shareholders**	**Total $**
March 2, 2016	**$0.50**	**March 31, 2016**	**15,195**	March 5, 2015	$0.045	April 15, 2015	1,365
March 2, 2016	**$0.08**	**April 15, 2016**	**2,438**	May 7, 2015	$0.045	July 15, 2015	1,367
May 4, 2016	**$0.08**	**July 15, 2016**	**2,444**	July 30, 2015	$0.045	October 15, 2015	1,345
August 4, 2016	**$0.08**	**October 17, 2016**	**2,448**	November 2, 2015	$0.050	January 15, 2016	1,513
November 2, 2016	**$0.08**	**January 16, 2017**	**2,462**				
	$0.82		**24,987**		$0.185		5,590

For the years ended December 31,

	2016 $	**2015 $**
Payable, beginning of period	**1,513**	1,208
Declared	**24,987**	5,590
Paid in cash	**(24,038)**	(5,285)
Payable, end of period	**2,462**	1,513

On March 8, 2017, the Company's Board of Directors declared a dividend of $0.12 per common share to be paid on April 15, 2017 to the shareholders of record as of March 31, 2017. The Company's Board of Directors also declared a special dividend of $0.65 per common share to be paid on March 31, 2017 to shareholders of record as of March 17, 2017.

15. SHARE CAPITAL

Authorized

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

Issued and outstanding

During the year ended December 31, 2016, the Company issued 506,885 (2015 – 584,108) common shares at an average rate of $5.07 per share for stock options exercised resulting in cash proceeds to the Company of $2,571,000 (2015 - $2,103,000).

In March 2016, the Company refreshed the Normal Course Issuer Bid ("NCIB") with the ability to re-purchase and cancel up to 1,500,000 shares from the open market. During the twelve months ended December 31, 2016, the Company purchased and cancelled a total of nil shares (December 31, 2015 – 530,500 at an average price of $6.10 per share).

As at December 31, 2016, the Company had 30,773,955 common shares outstanding (December 31, 2015 – 30,267,070).

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, 2016, the Company has 841,581 (2015 – 1,156,436) options outstanding, which expire on dates between December 2017 and March 2021. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2016, 419,088 (2015 – 723,415) 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,

	2016		2015	
	Stock Options #	**Weighted Average Exercise Price $**	Stock Options #	Weighted Average Exercise Price $
Balance, as at January 1	**1,156,436**	**5.83**	1,516,716	4.79
Granted	**295,069**	**7.85**	343,000	6.74
Exercised	**(506,885)**	**5.07**	(584,108)	3.60
Forfeited	**(103,039)**	**7.46**	(119,172)	6.15
Expired	—	—	—	—
Balance, as at December 31	**841,581**	**6.82**	1,156,436	5.83

	2016				
	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 $**
4.72	**146,001**	**4.72**	**0.95**	**146,001**	**4.72**
7.09	**227,370**	**7.09**	**1.93**	**227,370**	**7.09**
6.74	**213,741**	**6.74**	**3.24**	**45,717**	**6.74**
7.85	**254,469**	**7.85**	**4.24**	**—**	**7.85**
4.72 – 7.85	**841,581**	**6.82**	**2.79**	**419,088**	**5.49**

	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	1,156,436	5.83	2.71	723,415	5.22

During the year ended December 31, 2016, 295,069 stock options (2015 – 343,000) were granted at an exercise price of $7.85.

During the year ended December 31, 2016, 506,885 stock options (2015 – 584,108) were exercised with a weighted average exercise price of $5.07 (2015 – $3.60) resulting in cash proceeds to the Company of $2,571,000 (2015 – $2,103,000). Compensation expense previously included in contributed surplus of $673,000 (2015 – $618,000) 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, 2016, share-based compensation expense of $303,000 (2015 - $407,000) 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, 2016 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 $1.18 (2015 - $1.25).

	2016	**2015**
Risk-free interest rate (%)	**0.6**	0.7
Expected hold period to exercise (years)	**3.8**	3.8
Volatility in the price of the Company's shares (%)	**29.5**	30.5
Forfeiture rate (%)	**8.1**	7.6
Dividend yield (%)	**4.1**	2.7

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

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 year ended December 31, 2016, the Company awarded 23,286 PSUs (2015 - 14,825) and cancelled nil PSUs (2015 - 4,500). Compensation expense of $156,000 for the year ended December 31, 2016 (2015 - $21,000) was recognized in general and administrative expenses. As at December 31, 2016, the amortized fair value of the PSUs on the Company's balance sheet was $177,000 (December 31, 2015 - $21,000).

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, 2016, the Company awarded 26,790 DSUs (2015 – 26,000), paid out $73,000 in DSU compensation (2015 - $nil) and recognized $496,000 of compensation expense (2015 - $191,000) in general and administrative expenses. As at December 31, 2016, the fair value of the DSUs on the Company's balance sheet was $614,000 (December 31, 2015 - $191,000).

17. DISCONTINUED OPERATIONS

On September 30, 2016, the Company disposed of the property, plant and equipment, assets held for sale and inventory held in the former ZCL Dualam operations for total consideration of $2,508,000 including cash proceeds of $2,071,000. The revenues and costs shown in the discontinued operations schedule below include only those revenues and costs directly attributable to the business units for which operations have ceased and do not include any cost allocations or costs indirectly attributable to the discontinued operations.

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

(in thousands of dollars)	**2016** **$**	**2015** **$**
Revenue	**4,366**	20,733
Manufacturing and selling costs	**8,425**	22,733
Gross loss	**(4,059)**	(2,000)
Depreciation	**301**	582
General and administration	**100**	171
Loss on disposal of equipment	**101**	-
Loss on impairment of assets	**2,420**	2,878
Foreign exchange loss (gain)	**135**	(508)
	3,057	3,123
Loss before income taxes	**7,116**	5,123
Income tax recovery	**(2,078)**	(609)
Net loss from discontinued operations	**(5,038)**	(4,514)

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

(in thousands of dollars)	**$**
Inventory	**794**
Property, plant and equipment	**2,012**
Total carrying values of assets disposed of	**2,806**

c) Cash used in discontinued operations are as follows:

(in thousands of dollars)	2016 $	2015 $
Net loss from discontinued operations	**(5,038)**	(4,514)
Add (deduct) items not affecting cash:		
Depreciation expense *[notes 7 & 8]*	**301**	582
Loss on disposal of equipment *[note 7]*	**101**	-
Loss on impairment of equipment and intangibles *[notes 7 & 8]*	**2,420**	2,878
Purchase of property, plant and equipment *[note 7]*	**(180)**	(548)
Proceeds on disposal of assets	**2,083**	-
Cash used in discontinued operations	**(313)**	(1,602)

18. INCOME TAXES

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

(in thousands of dollars)	2016 $	2015 $
Net income before tax	**28,023**	24,015
Statutory federal and provincial taxes at 27% (2015 – 26%)	**7,566**	6,316
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**1,652**	1,137
Effect of permanent differences	**(1,221)**	(1,147)
Non-taxable foreign income, other tax exempt income and other items	**8**	196
At the effective income tax rate of 29% (2015 – 27%)	**8,005**	6,502

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

(in thousands of dollars)	2016 $	2015 $
Balance, beginning of the year	**3,929**	4,220
Tax recovery during the year recognized in net income	**(1,060)**	(694)
Tax expense during the year recognized in other comprehensive income	**(47)**	403
At the effective income tax rate of 27% (2015 – 26%)	**2,822**	3,929

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

(in thousands of dollars)	2016 $	2015 $
Property, plant and equipment	**3,444**	4,261
Land	**363**	363
Intangible assets	**(12)**	344
Inventories	**97**	(65)
Refundable insurance premiums	—	—
Non-deductible reserves and accrued liabilities	**(1,086)**	(973)
Other	**16**	(1)
	2,822	3,929

19. EARNINGS PER SHARE

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

For the years ended December 31,

Numerator (in thousands of dollars)	**2016** **$**	**2015** **$**
Net income from continuing operations	**20,018**	17,513
Net loss from discontinued operations	**(5,038)**	(4,514)
Net income	**14,980**	12,999

Denominator (in thousands)	**2016** #	**2015** #
Weighted average shares outstanding - basic	**30,514**	30,200
Effect of dilutive securities:		
Stock options	**234**	165
Weighted average shares outstanding - diluted	**30,748**	30,365

20. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for $36,000 (2015 - $23,000) for the year ended December 31, 2016, 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, 2016 included $nil (December 31, 2015 - $6,000) 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)	**2016** **$**	**2015** **$**
Salaries, benefits and director fees	**1,825**	1,434
Share-based payments	**700**	416
Total	**2,525**	1,850

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, 2016 and 2015. Share-based payments are the amount of expense recognized in the consolidated statements of income relating to the identified key management and directors.

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 credit 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, 2016 and 2015.

a) 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, 2016, 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, 2016. 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, 2016,

(in thousands of US dollars)	Foreign Operations $	Domestic Operations $	Total $
Cash and cash equivalents	**29,478**	**1,944**	**31,422**
Accounts receivable	**14,421**	**1,882**	**16,303**
Accounts payable and accrued liabilities	**(8,760)**	**(590)**	**(9,350)**
Trade balances between foreign and domestic operations	**(8,020)**	**8,020**	**—**
Net balance sheet exposure	**27,119**	**11,256**	**38,374**

Operating exposure for the year ended December 31, 2016,

(in thousands of US dollars)	$
Sales	**120,036**
Operating expenses	**98,036**
Net operating exposure	**22,000**

The weighted average US to Canadian dollar translation rate was 1.33 for the year ended December 31, 2016. The translation rate as at December 31, 2016 was 1.34.

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, 2016,

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	**1,677**
Net operating exposure of foreign operations	**2,671**
Change in net income	**4,348**

Other comprehensive income would have changed $3,471,000 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.

b) 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 and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for trade and other accounts receivable are managed through established credit monitoring activities. 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 market concentration in the downstream retail fuel sectors. The market 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, 2016, one customer exceeded 10% of the consolidated trade accounts receivable balance. The Company has no concerns regarding the collectability of this account. 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 $25,013,000 as at December 31, 2016 (December 31, 2015 - $24,481,000). On a geographic basis as at December 31, 2016, approximately 16% (December 31, 2015 - 22%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 84% (December 31, 2015 - 78%) was due from US customers.

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

As at December 31,

	2016	**2015**
Current	**50%**	51%
Past due 1 to 30 days	**26%**	26%
Past due 31 to 60 days	**13%**	11%
Past due 61 to 90 days	**9%**	6%
Past due greater than 90 days	**2%**	6%
	100%	100%

Despite the established payment terms, customers in the petroleum 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 $295,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2015 - $933,000).

The Company had recorded an allowance for doubtful accounts of $105,000 as at December 31, 2016 (December 31, 2015 - $327,000). The allowance is an estimate of the December 31, 2016 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of $353,000 (2015 - $288,000), offset by payments of $530,000 (2015 - $97,000), write offs of $48,000 (2015 - $5,000) and a translation adjustment of $3,000 (2015 - $16,000) for the year ended December 31, 2016.

c) 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 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 $**	**2017 $**	**2018 $**	**Thereafter $**
Accounts payable, accrued liabilities and provisions	18,540	17,274	1,266	—
Dividends payable	2,462	2,462	—	—
Total	21,002	19,736	1,086	—

d) Fair value of financial instruments

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

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

22. STATEMENTS OF CASH FLOWS

For the years ended December 31,

(in thousands of dollars)	2016 $	2015 $
Net interest paid	**273**	309
Income taxes paid	**7,654**	6,552
	7,927	6,861

23. SEGMENTED INFORMATION

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. The December 31, 2015 consolidated financial statements included disclosures on two reportable segments, Aboveground Fluid Containment ("Aboveground") and Underground Fluid Containment ("Underground").

The Aboveground operating segment consisted primarily of the ZCL Dualam operations. With the exit of the ZCL Dualam operations, as described in note 17, operating performance of the Company is no longer segregated into separate financial statements when reporting to the chief operating decision maker. Based on management's judgement and applying the aggregation criteria in IFRS 8.12, the Company's operations now fall under a single reportable segment.

a) 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, 2016 and 2015, no single customer exceeded 10% of total revenue.

b) Information about geographic areas

For the years ended December 31,

	Revenues	
(in thousands of dollars)	2016 $	2015 $
Canada	**28,389**	30,164
United States	**148,245**	130,271
International	**7,489**	4,507
	184,123	164,942

	Total Assets		Property, Plant and Equipment, Intangible Assets and Goodwill	
As at	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2015**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Canada	**36,327**	52,788	**19,093**	22,097
United States	**124,871**	121,159	**44,856**	48,411
International	**2,730**	3,597	**497**	768
	163,928	177,544	**64,446**	71,276

24. IMPAIRMENT TESTING OF GOODWILL

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

- Canada
- US

The carrying amount of goodwill as at October 1, 2016 was $35,199,000 (2015 - $35,888,000). The Company performed its annual impairment test on the remaining balance of goodwill as at October 1, 2016. Among other factors, the Company considers the relationship between the Fair Value Less Costs of Disposal ("FVLCD") of its CGUs, to their carrying amounts, when reviewing for indicators of impairment. As at October 1, 2016, 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 Canada and US CGUs were combined reflecting the way the operations are managed on a day to day basis.

Goodwill carried in the 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, 2016 figures above may differ from the October 1, 2015 carrying amount, along with the year end December 31, 2015 and 2016 carrying amounts.

Key assumptions used in the FVLCD calculations

The calculation of the FVLCD for the two 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. The Discount rate ranges utilized by the CGU group is (12.3% to 13.1%).

Growth rate estimates:
Growth rates for beyond 2016 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 2016 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. The specific risk premium would need to increase 14 percentage points (178%) in the low end of the premium range before a deficiency 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. Gross profit would have to fall to 46% of our current expectations before a deficiency would result in the respective carrying amounts.

As at October 1, 2016, the total recoverable amount of the Company's CGUs exceeded their carrying amounts.

25. PRIOR YEAR RECLASSIFICATION

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