ZCL
COMPOSITES INC.
making a lasting difference®

2017 Annual Report

Who we are

Mission

Deliver peace of mind through corrosion-resistant solutions that preserve and protect the environment

Experience

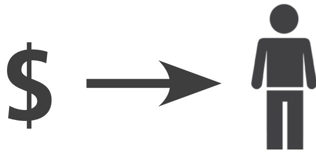
Nearly 40 years of industry experience with more than 200,000 underground storage tanks installed

Service

Six manufacturing facilities throughout North America to consistently deliver unsurpassed capabilities to meet customer needs

Sustained performance

+$74.9 million returned to shareholders in dividends paid since 2012

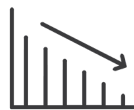


+9% compound annual growth rate in revenues from continuing operations since Jan. 1, 2011

$100 initially invested Jan. 1, 2011 would be worth **$434.23**

+27% compound annual growth rate in total shareholder return since Jan. 1, 2012

Our workers' compensation insurance experience modification rate reduced from **1.12** in 2013 to **0.82** in 2017



Earnings per share growth of **+262%** since Jan. 1, 2011

Peace of mind

The phrase is found throughout ZCL's mission, website and advertising. But it's not just a catchphrase to us. When we think about peace of mind, we think about eliminating risk for our customers by preventing hazardous substances from contaminating the environment. We think about protecting precious groundwater aquifers from pollution. We think about the property we might save from a fire. We think about the rainwater collected to recycle in a drought. We think about the financial savings associated with harvesting runoff to use as irrigation and using collected greywater in plumbing.

As we manufacture underground storage tanks for these and other applications, preserving and protecting the environment for future generations is, and will continue to be, top of mind.

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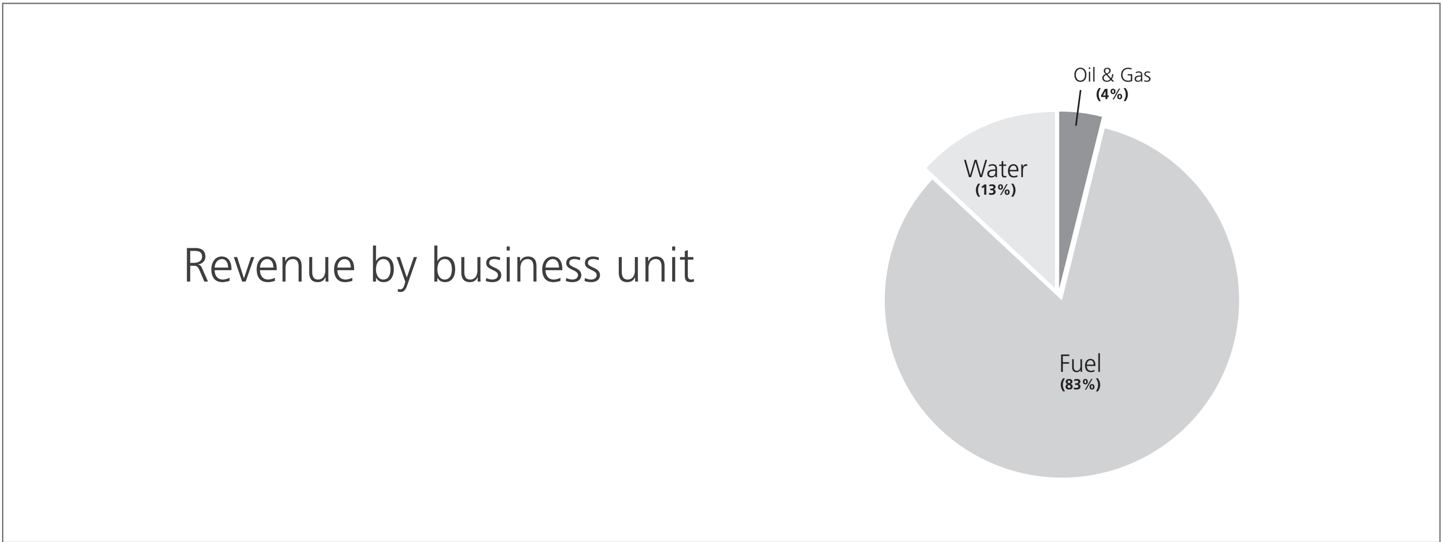
2017 Results

Revenue	Net income	Earnings per share	Adjusted EBITDA
$188.2 million	**$18.0 million**	**$0.58**	**$31.2 million (17% of revenue)**
2016: $184.1 million	2016: $15.0 million	2016: $0.49	2016: $33.0 million (18% of revenue)

$33.7 million in cash dividends paid in 2017, a 40% increase compared to 2016 and six-fold since 2015

12.5% increase in our quarterly dividend, to $0.135 per share per quarter

$150,000 in community investment



Message to shareholders

2017 Year in Review

ZCL ended 2017 with a strong fourth quarter. Revenue in Q4 2017 of $50.7 million was up 8.8% over the same period of 2016, and up 12.6% on a source currency basis before restatement for foreign exchange. On a full year-over-year basis, in 2017 ZCL booked record revenue from continuing operations of $188.2 million, up $4 million or 2.2% compared to 2016, and up 4.2% on a source currency basis before restatement for foreign exchange. ZCL also set new records for consolidated net income of $18.0 million, up $3.0 million or +20% from 2016, and consolidated fully diluted earnings per share of $0.58, up $0.09 or +18% from 2016.

Achieving the record 2017 revenue was not evenly spread throughout the year as we saw an unusually high level of quarter-to-quarter volatility when compared to 2016. As we have described several times, ZCL ships our product directly to an active construction site and our tanks are frequently installed underground on the very same day. We do not ship our tanks to our customer's inventory or to a holding yard where our tanks may be temporarily stored prior to installation. This practice is quite unique in many respects. Accordingly, our revenue recognition in any particular quarter can be materially impacted by the myriad of variables that can affect scheduling at an active underground construction site. When these site delays occur, ZCL's revenue recognition is often deferred as tank shipments are delayed until the site is ready to accept our tank.

The factors above, coupled with deferred spending in the second half of the year by several of our larger customers due to a historically high level of retail fuel industry consolidation activity, resulted in a higher than normal degree of quarter-to-quarter revenue volatility for ZCL in 2017. For instance, when compared with ZCL's 2016 quarterly revenues from continuing operations, Q1 2017 was down 9.2%, Q2 2017 was up 19.2%, Q3 2017 was down 9.5%, and Q4 2017 was up 8.8%. Even with this unusual volatility, we successfully grew our revenues from continuing operations for the sixth consecutive year, and we have consistently posted profits over 27 consecutive quarters. Over the past several months, we have implemented changes to our forecasting procedures to enable management to better plan for quarter-to-quarter revenue volatility.

ZCL Brand Promise

In the North American retail fuel underground storage tank market, ZCL is the true trusted brand. Over the past 30 years, ZCL's three-pronged brand promise of quality (the best tank in the market), accuracy (we ship what you order, every time), and timeliness (we have the shortest lead times in the industry and we will get your order to you when you expect it) has resulted in ZCL achieving this trusted brand status. Our objectives moving forward are to continue to capitalize on our trusted brand status in the retail fuel market, while at the same time leveraging this status to generate growth in the Water and Wastewater markets.

Delivering on ZCL Promise to Shareholders

All in all, 2017 was a good year for ZCL, and we were able to share that with our shareholders, with $33.7 million in cash dividends (both quarterly and special) paid in 2017, a 40% increase compared with 2016 and five-fold since 2015. In addition, we utilized ZCL's Normal Course Issuer Bid to repurchase 290,500 shares for $3.2 million.

As we enter 2018, we are pleased to demonstrate our continued commitment to sharing ZCL's success with our shareholders in the form of a 12.5% increase in our quarterly dividend, to $0.135 per share per quarter ($0.54 per share annually). And we believe we can and will do even better going forward.

Succession Planning Update

One of the most important responsibilities of a Board of Directors and a CEO is managing succession planning, and specifically planning for CEO succession. As previously announced, I am retiring as ZCL's President and CEO. Together with our Board of Directors, we have been engaged in a new CEO search. This process is ongoing and we will need a little more time to complete it successfully. As a result, the Board of Directors and I have agreed to delay my retirement date until June 30, 2018 from March 31, 2018.

I remain optimistic about ZCL's future and I am supremely confident that the entire ZCL team is prepared for the coming leadership transition.

Ron Bachmeier
President & CEO

Giving back through community engagement

In 2017, we launched a community engagement program to help us build meaningful relationships within our local communities.

Many of our employees are already involved in fundraising, volunteering and awareness initiatives for various charities. Over the course of the year, employees raised thousands of dollars for causes throughout North America. To support their efforts, we held a monthly community engagement photo contest and donated additional funds to the contest winners' causes.

We cosponsored an event that raised more than $500,000 to help children learn about work readiness, entrepreneurship and financial literacy through experiential educational programs.

We also cosponsored an event that raised $1.25 million to support cancer research programs.

Finally, we donated $25,000 to food banks from funds raised at our customer and supplier appreciation events.

Altogether, ZCL made $150,000 in charitable donations distributed throughout North America -- in addition to the thousands of dollars raised by our employees.

In 2018, we plan to explore new opportunities to invest in the health and well-being of our communities.

The Inside Ride,
Edmonton, Oct. 21, 2017

The team raised $1,190 for the Kids with Cancer Society in support of children with cancer and their families. Pictured left to right: Kathy Demuth, Jennifer Power, Loren Jacula, Stefanie Korzan, Werner Prelle and Joe Santoro and Daniel Santoro.

YWCA Walk a Mile in Her Shoes,
Edmonton, Sept. 20, 2017

This event aims to raise awareness and money for domestic violence prevention programs. Pictured left to right: Mike Pejs, Scott Gilbert, Marc St. Martin, Rene Aldana, Shawn Roach, Werner Prelle, Joe Santoro and Loren Jacula raised $7,065.

Peace of mind
delivering on our brand promise

Fire protection water storage at Toronto College

When Centennial College aviation students go to class in the fall of 2018, they will enter a learning center directly connected to aeronautic history. The new Centre for Aerospace and Aviation will be in the renovated de Havilland of Canada aircraft manufacturing building. The education and research facility will house a hangar large enough for commercial jets, a library, classrooms, labs, workshops and offices.

As Stantec developed the water service design, they realized the fire protection water flow did not meet the city's building code requirements. ZCL's underground storage tanks provided the necessary onsite water source needed.

"The tanks were set and leveled in about three to four hours" says Kent Frame of GeoStorm Inc., who supplied the tanks for the project. "All we needed was a small crane. If we'd been working with precast concrete tanks, we would have needed a large crane. And placement of the tanks would have taken much longer." As a result, ZCL fiberglass tanks lowered shipping and installation costs.

"It comes down to peace of mind. ZCL has a reputation for providing reliable, structurally strong tanks."

- **Kent Frame**, GeoStorm Inc.

"Fiberglass was the more efficient choice," says Mario Bon of Stantec. "Time was of the essence, and these tanks are easier to handle and install, and it's easier to make the connections between the tanks and piping required for the fire suppression system." Mario says this last feature is a significant benefit.

In addition, concrete is vulnerable to cracking, corrosion and leaking. "When you have a watertight tank that's built to be long-lasting, you don't have to worry about water seeping away," says Kent.

ZCL's fiberglass tanks have larger capacities than concrete tanks – up to 227,000 liters of volume in a single tank. This project would have required six to eight concrete tanks to supply the water volume required. Only three fiberglass tanks were needed for this project.

Stantec has worked with ZCL before, and once Stantec decided to specify fiberglass tanks for the project, they were the only company Mario thought of.

"The team is very easy to deal with and very accommodating," he says. "Whenever we have a question, we always get the information and support we need."

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, 2017, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2017. 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 7, 2018.

CORPORATE PROFILE

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

Fuel is the Company's largest segment and serves a relatively mature market. Water & Wastewater and Oil & Gas are smaller emerging segments. The Company operates under the brands ZCL, Xerxes, ZCL-Xerxes, and Parabeam.

Fuel Markets

ZCL is the leading provider of Underwriters Laboratories ("UL") and Underwriters Laboratories of Canada ("ULC") listed underground fuel storage tanks for the downstream retail and commercial markets in both Canada and the US. 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 UL and 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 & Wastewater Markets

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 and Wastewater 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.

Oil & Gas Markets

ZCL also provides products for other market segments including Oil & Gas.

Within Oil & Gas, the Company serves both midstream and upstream markets. The Company supplies tanks for pipelines (midstream markets) and for oil and gas production companies (upstream markets).

OVERALL PERFORMANCE & OUTLOOK

ZCL ended 2017 on a high note as revenue rose 9% for the fourth quarter of 2017 compared with a year earlier. That was a significant improvement from the first nine months of 2017, in which revenue was approximately unchanged from a year earlier. Gross profit and net income were also up in the fourth quarter, compared with a year earlier.

For the full year, revenue was $188.2 million up 2% compared to a year earlier (up 4% on a source currency basis). Gross profit was $41.4 million, or 22% of revenue, compared with $43.3 million or 24% of revenue a year earlier. The reduction in 2017 gross profit was attributable to investments supporting manufacturing, sales and marketing initiatives, and employee safety and hygiene; we believe these strategic initiatives will benefit the Company and benefit profitability in 2018 and beyond.

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 arise. While continuing to search out profitable growth opportunities, we are again demonstrating our commitment to sharing ZCL's success with our shareholders in the form of a 13% increase in our quarterly dividend to $0.135 per share ($0.54 per share annualized) from $0.12 per share ($0.48 per share annualized) during 2017.

As an update to the previously announced retirement of Ron Bachmeier, ZCL's President and CEO, he and the Board of Directors have agreed to delay his retirement date beyond March 31, 2018. Mr. Bachmeier will remain President and CEO until June 30, 2018, if the additional time is needed to complete the succession process.

Financial Results

Revenue

Revenue from continuing operations for the year ended December 31, 2017 was $188.2 million, up $4.1 million, or 2%, from $184.1 million for the year ended December 31, 2016. Our core Fuel Markets grew by 2% (4% on a source currency basis). Our emerging Water & Wastewater Markets grew by 6% (8% on a source currency basis) and Oil & Gas Markets grew by $2.3 million, or 68% compared with 2016. This revenue growth was partially offset by a decrease in Industrial Markets revenue of $2.6 million. ZCL decided to cease offering products to Industrial Markets in 2017 due to projected low demand in this market segment for the foreseeable future.

Gross Profit

Gross profit from continuing operations for the year ended December 31, 2017 was $41.1 million, down $1.9 million, or 4%, from $43.3 million a year earlier. Gross margin from continuing operations was 22% of revenue for 2017, down from 24% a year earlier.

Adjusted EBITDA

Adjusted EBITDA from continuing operations for the year ended December 31, 2017 was $31.1 million, down $1.9 million, or 6%, from $33.0 million a year earlier. Adjusted EBITDA as a percentage of revenue was 17% for 2017, down from 18% a year earlier.

Net Income from Continuing Operations

Net income from continuing operations for the year ended December 31, 2017 was $18.4 million, down $1.6 million, or 8%, from $20.0 million a year earlier. The reduction was primarily due to lower gross profit and gross margin, compared with a year earlier.

Earnings per share from continuing operations for the year ended December 31, 2017 were $0.59, down $0.06, or 9%, from $0.65 per share a year earlier.

Net Income

Net income for the year ended December 31, 2017 was $18.0 million, up $3.0 million, or 20%, from $15.0 million a year earlier. Earnings per share for the year ended December 31, 2017 were $0.58, up $0.09, or 18%, from $0.49 per share a year earlier.

Net income from continuing operations was larger than net income because of losses on discontinued operations in both 2017 and 2016. The losses on discontinued operations, being the ZCL Dualam operations exited in the third quarter of 2016, were much smaller in 2017 than 2016.

Cash

As at December 31, 2017, ZCL had a cash and cash equivalents ("cash") balance of $25.6 million compared to $24.7 million as at September 30, 2017 and $43.2 million as at December 31, 2016. The cash decrease in 2017 primarily resulted from dividends paid of $33.7 million, partially offset by cash generated on funds from continuing operations of $23.0 million.

Capital Allocation Strategy

ZCL has developed a consistently profitable business model, 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.

For the year ended December 31, 2017, ZCL generated funds from continuing operations, before working capital requirements, of $23.0 million dollars. These funds from continuing operations support our capital allocation strategy.

1. Funding Organic Growth: Capital Investment Plan

The 2017 capital investment plan of $5 million, including maintenance capital, was fully utilized in the year with the bulk of the spending occurring in the second half of 2017. Investments were made in all of our North American manufacturing facilities in areas such as integrating advanced materials into the production process, upgrading our quality control and safety systems, and improving the physical condition and work environment of our facilities.

For 2018, ZCL again 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 2018 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

In 2017, ZCL distributed $33.7 million in dividends to Shareholders. The dividends included both quarterly dividend payments of $13.6 million and a special dividend of $20.1 million.

For 2018, the Board has declared a 13% further increase in our quarterly dividend to $0.135 per share, up from $0.12 per share previously, to be paid on April 16, 2018, to the shareholders of record as of March 31, 2018. With this increase, we estimate the annualized cash cost of the quarterly dividend to be approximately $16.7 million, compared with $14.9 million declared in quarterly dividends in 2017. 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

In 2017, ZCL purchased 290,500 shares at an average price of $10.92 per share, for $3.2 million, through the utilization of our Normal Course Issuer Bid ("NCIB").

For 2018, ZCL plans to continue our 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 continue 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 Market

($millions)	Dec 31, 2017	Dec 31, 2016	% Change
Fuel	**26.7**	28.9	(8%)
Water & Wastewater	**3.6**	3.9	(6%)
Oil & Gas/Industrial	**0.7**	2.8	(74%)
Total	**31.0**	35.6	(13%)

Backlog was $31.0 million as at December 31, 2017, down $4.6 million or 13% from $35.6 million a year earlier, and reflected a negative foreign exchange translation impact.

Fuel backlog of $26.7 million was down $2.2 million or 8% compared to a year earlier. Contributing to the decrease was a foreign exchange adjustment of $1.7 million that resulted from the US dollar exchange rate decreasing from 1.34 at December 31, 2016 to 1.26 at December 31, 2017. On a source currency basis, overall Fuel backlog was comparable to the prior year. US Fuel backlog was down $1.8 million (source currency) while Canadian Fuel backlog increased by $1.4 million. Also included in the Fuel backlog is International operations. Backlog for the International group increased by $0.4 million relative to the prior year.

Water & Wastewater backlog of $3.6 million was down $0.3 million or 6% compared with a year earlier, due to a reduction in the US dollar exchange rate, compared with a year earlier. On a source currency basis, Water & Wastewater backlog was comparable to the prior year.

Oil & Gas/Industrial backlog of $0.7 million was down $2.1 million from $2.8 million a year earlier. ZCL ceased offering products to Industrial & Oil Sands Markets in 2017, resulting in a $2.5 million reduction in Oil & Gas/Industrial backlog.

The total backlog decreased by $12.3 million or 28% from $35.6 million at September 30, 2017. On a source currency basis, overall backlog decreased $10.3 million or 29% from the prior quarter, primarily due to the normal seasonal nature of the business.

2018 Outlook

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

At this point, we anticipate first quarter 2018 revenue will be comparable with the first quarter of 2017. However, due to the combination of rising resin prices, negative foreign exchange translation and spending on operational improvement programs that are expected to benefit future periods, we anticipate first quarter 2018 results to be down from 2017.

For the full year 2018, we expect organic growth to increase from the modest growth levels achieved in 2017, particularly on a source currency basis. We expect this growth to come from a combination of market growth in our core Fuel Markets with the continued replacement of the aged infrastructure and new to industry construction, market share gains against steel in our existing Fuel and Oil & Gas Markets, and market share gains against concrete in Water & Wastewater Markets. We also expect to achieve growth by expanding our product offerings across all revenue segments, and by developing new or adjacent markets for our current products.

We are implementing some important improvements on how we operate as a company as we strive toward operational excellence. These improvements include the real time capturing and reporting of market and business intelligence data to make timely, data-based decisions that will increase our sales pipeline, improve our operational efficiency, and better serve our customer needs.

In addition, continual product and process innovation efforts are expected to improve manufacturing efficiencies and throughput. We have also prioritized an increased focus on health and safety for our employees within our manufacturing facilities. These initiatives are necessary to support our long term profitable growth strategy.

As our normal business cycle results in increasing revenues beyond the first quarter, we expect these operational improvement investments will deliver higher profitability in 2018 and beyond.

We are still assessing the impact of the US tax reform, but initial indications are that the Company's effective tax rate will be reduced by approximately four percentage points in 2018.

Our outlook for 2018 by segment is as follows:

Fuel Markets

The Fuel Markets are our most mature business and our largest revenue segment. We are seeing growth in sales to smaller independent retail petroleum marketers through our North American leading distributor network and expect increased sales to certain larger retail fuel marketers who deferred spending in 2017 due to historically high levels of industry consolidation. The industry consolidators are expected to complete the integration of newly acquired stores and return to their longer term strategy of upgrading and replacing their aged infrastructure of underground storage tanks, along with construction of new to industry sites as they battle for market share.[1]

We continue to view industry consolidation as a long term positive for ZCL given that consolidators are committed to retail fuel and typically devote new capital to expand their operations and grow their market share. Looking at long term horizons, we believe this, along with our multi-year trend of increased sales to smaller independent retailers, will be a net benefit to ZCL as the industry looks for solution providers they can trust to serve them throughout the entire North American geography.

Water & Wastewater Markets

Though we have participated in the Water & Wastewater ("W&WW") Markets for several years now, we continue to view W&WW as part of our emerging business with the most potential for significant relative growth in the future. These markets are a fundamental part of our long term growth strategy.

During 2017, we completed extensive independent market research[2] in order to open new markets and identify opportunities for growth. This market research supports our optimism about longer term growth opportunities and indicates that the addressable market for the tanks that ZCL currently supplies, is in the range of $400 – $600 million annually. Concrete currently dominates this space, commanding north of 70% market share, while Fibreglass Reinforced Plastics (FRP) solutions make up less than 10%. The results of these research activities not only serves to validate our previous assumptions on the W&WW Markets, but also serves to indicate the large growth opportunity W&WW Markets presents to ZCL.

As we have described previously, our challenge in the W&WW Markets is to create substitute demand to replace the concrete products that currently dominate this large existing market. We believe that ZCL's FRP products have a compelling life cycle value proposition, including water tightness and lower costs. This is true both at installation and, even more significantly, throughout the life of the tanks, as FRP tanks typically require no post-installation ongoing maintenance. The incumbent product, build-in place concrete, is a site construction project and requires ongoing maintenance and repairs over the life-cycle of the system. The advantages of our products will drive the creation of this substitute demand and allow ZCL to expand its market share. Our objective is to complete the implementation of a revised "go to market" strategy that properly place our products into the right sales channels at the earliest possible time in the sales cycle. Among other things, specific initiatives include searching out established W&WW Market agents and distributors to represent our product lines, refocusing account management and technical sales support on the importance of specification writing, developing inside sales technical support resources to manage longer cycle opportunities, expanding existing processes to generate higher quality leads, and increasing the overall sales and marketing resources that support this business unit.

Oil & Gas Markets

Oil and Gas Markets comprise approximately 5% of our total revenues. Although challenges in this segment remain due to depressed commodity prices, there are areas of opportunity for our product portfolio, including the potential to displace incumbent steel tank providers, both at the wellhead and in pipeline infrastructure.

Specific initiatives for our Oil & Gas Markets include our Sales and Product Innovation teams collaborating to create new product designs that better address customer needs, creating an established agent and distributor network throughout North America and refocusing sales efforts to obtain a greater share of business of our existing customers.

[1] Sources include publications from the National Association of Convenience Stores (NACS).

[2] Source – Lucintel "Growth Opportunities for ZCL in Tanks for the Water / Wastewater Industry," July 2017.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	Year Ended December 31 2017 $	2016 $	2015 $
Operating Results			
Revenue	**188,169**	184,123	164,942
Gross profit	**41,371**	43,319	35,191
Gross margin	***22%***	*24%*	*21%*
General and administration	**9,824**	10,499	9,116
Foreign exchange loss (gain)	**683**	147	(1,665)
Depreciation and amortization	**3,196**	3,393	3,374
Finance expense	**243**	273	319
Loss on disposal of assets	**96**	938	32
Impairment of assets	**1,124**	46	-
Income tax expense	**7,784**	8,005	6,502
Net income from continuing operations	**18,421**	20,018	17,513
Net loss from discontinued operations	**(437)**	(5,038)	(4,514)
Net income	**17,984**	14,980	12,999
Earnings per share from continuing operations			
Basic	**0.59**	0.66	0.58
Diluted	**0.59**	0.65	0.58
Earnings per share			
Basic	**0.58**	0.49	0.43
Diluted	**0.58**	0.49	0.43
Cash dividends declared per common share	**1.13**	0.82	0.185
Adjusted EBITDA (*note 1*)	**31,185**	32,976	28,147
Adjusted EBITDA as % of revenue	***17%***	*18%*	*17%*
Adjusted EBITDA per diluted share	**1.00**	1.07	0.93

(in thousands of dollars)	As at December 31 2017 $	2016 $	2015 $
Financial Position			
Cash and cash equivalents	**25,556**	43,208	40,770
Working capital *(note 1)*	**52,920**	73,737	76,781
Total assets	**140,728**	163,928	177,544
Total non-current liabilities	**3,928**	4,088	5,015

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 2017	2016	% change
Revenue by Market:			
Fuel	**155,779**	152,791	2%
Water & Wastewater	**24,293**	22,946	6%
Oil & Gas/Industrial	**8,097**	8,386	(3%)
	188,169	184,123	2%

Revenue from continuing operations for the year ended December 31, 2017 was $188.2 million, up $4.0 million, or 2%, from $184.1 million in the prior year.

The change in revenue reflects the factors noted below:

Fuel

Fuel revenue of $155.8 million was up $3.0 million or 2% from $152.8 million in the prior year. In the US, on a source currency basis, Fuel Markets revenue for the year ended December 31, 2017, was up $3.8 million, or 4% compared to 2016. A $4.7 million or 15% increase in sales to distributors relative to 2016 was partially offset by a $1.5 million decrease in sales to larger retail petroleum marketers, due in part to a deferral in spending by certain of our high volume customers as a result of the historically high level of industry consolidation that has been occurring.

Canadian Fuel revenue in 2017 was comparable to 2016. Sales to major oil companies were up $2.1 million or 46% compared to a year earlier, and sales to distributors were up $1.1 million or 11% compared to a year earlier. These increases were partially offset by decreases in sales to large retail petroleum marketers compared to a year earlier.

Fuel Markets also includes revenue from International operations which were up 5% compared to 2016 due primarily to increased royalties on licensed technology.

Water & Wastewater

Water & Wastewater revenue for the year ended December 31, 2017 was $24.3 million, up $1.3 million or 6%, compared to 2016. On a source currency basis, Water & Wastewater revenue was up 8% compared with a year earlier. Increases in sales for Wastewater, Fire Protection and Grease Interceptor markets of $3.8 million (source currency) were partially offset by decreases in sales for Potable Water and Water Collection applications.

US Water & Wastewater Market sales were up $1.2 million or 8% on a source currency basis while Canadian Water sales were up 4% relative to the 2016 year.

Oil & Gas/Industrial

Oil & Gas/Industrial revenue of $8.1 million for 2017 was down $0.3 million or 3% compared to $8.4 million a year earlier. A $2.6 million or 82% increase in Oil & Gas revenue in 2017 was more than offset by a $2.9 million decrease in Industrial Markets revenue compared to a year earlier.

During the third quarter of 2017, the Company decided to cease offering products to Industrial Markets, including aboveground chemical storage tanks used in Oil Sands applications. A required investment in equipment was not supported by projected low demand in this market segment for the foreseeable future.

Gross Profit

($000s)	Twelve Months 2017	2016	% change
Gross profit	**41,371**	43,319	(4%)
Gross margin	***22%***	*24%*	

In 2017, gross profit from continuing operations was $41.4 million, down $1.9 million or 4% from $43.3 million in 2016. Gross margin from continuing operations was 22% in 2017, down from 24% in 2016.

The gross profit and gross margin decrease relative to 2016 were attributable to a number of factors including the impact of additional expenditures incurred relative to 2016 with regard to investment in manufacturing innovation, sales and marketing initiatives, employee safety and plant physical condition that are expected to benefit the Company and positively impact profitability over the longer term.

Gross profit and gross margin were also impacted in the current year due to higher resin costs as a result of disruptions that occurred in 2017 on US gulf coast petrochemicals production that have negatively impacted profitability. A resin surcharge implemented in 2017 did not fully cover the increased resin supply costs and negatively impacted gross profit by $0.6 million.

General and Administration

($000s)	Twelve Months
2017	9,824
2016	10,499
% change	(6%)

General and administration ("G&A") expense for the year ended December 31, 2017, was down $0.7 million or 6% compared to 2016. The year over year decrease was primarily due to reductions in both short and long term incentive compensation.

Long term compensation has decreased due to the decrease of the market value of the ZCL share price as at the end of December, 2017 compared with a year earlier. Directors are partially compensated through deferred share unites (DSUs) which are "marked to market" every quarter and were down $0.3 million compared to 2016. As well, performance based compensation recorded in G&A decreased compared with a year earlier. Short term incentive compensation also decreased $0.3 million compared with 2017.

Foreign Exchange Loss

($000s)	Twelve Months
2017	683
2016	147

The foreign exchange loss for each year related to the combination of fluctuations in the US dollar and euro conversion rate and the US dollar and euro 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	2017		2016			
	Avg.	**Close**	**Avg.**	**Close**	**Avg. Change**	**Close Change**
Q1	**1.32**	**1.33**	1.37	1.30	(4%)	2%
Q2	**1.35**	**1.30**	1.29	1.30	5%	nil
Q3	**1.25**	**1.25**	1.30	1.31	(4%)	(5%)
Q4	**1.27**	**1.26**	1.34	1.34	(5%)	(6%)
Annual	**1.30**	**1.26**	1.33	1.34	(2%)	(6%)

euro Conversion Rates

Year Ended	2017		2016			
	Avg.	**Close**	**Avg.**	**Close**	**Avg. Change**	**Close Change**
Q1	**1.41**	**1.42**	1.51	1.47	(7%)	(3%)
Q2	**1.48**	**1.48**	1.46	1.44	1%	(3%)
Q3	**1.47**	**1.47**	1.46	1.47	1%	nil
Q4	**1.50**	**1.50**	1.44	1.42	4%	6%
Annual	**1.47**	**1.50**	1.47	1.42	nil	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
2017	3,196
2016	3,393
% change	(6%)

Depreciation and amortization expense is comparable to a year earlier.

Loss on Disposal of Assets

($000s)	Twelve Months
2017	96
2016	938

During 2016, the $0.9 million loss on disposal of assets 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.

Loss on Impairment of Property, Plant and Equipment and Intangibles

($000s)	Twelve Months
2017	1,124
2016	46

During 2017, the Company decided to cease offering products to Industrial Markets, including aboveground chemical storage tanks at Oil Sands facilities. A required investment in equipment was not supported by projected low demand in this market segment for the foreseeable future.

The $1.1 million non-cash impairment of assets was a result of this decision. The Company is exiting the leased Edmonton Corrosion facility during the first quarter of 2018.

Income Taxes

Income tax expense for the year ended December 31, 2017 represented 29.7% of pre-tax income, compared to 28.6% of pre-tax income in 2016. The increase relative to the prior year is due to withholding tax payments on cash repatriations from the Company's US subsidiaries, offset partially by reductions in enacted future tax rates.

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
2017	(5,465)
2016	(3,050)

The foreign translation loss in the year ended December 31, 2017 was due to the weakening of the US dollar relative to the Canadian dollar throughout the year from 1.34 to 1.26. In 2016, the US dollar weakened from 1.39 to 1.34 generating a loss on the translation of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at December 31, 2017, working capital (current assets less current liabilities) of $52.9 million was down $20.8 million from $73.7 million as at December 31, 2016. The majority of the decrease was a result of a decrease in cash and cash equivalents and inventory, along with increases in accounts payable and accrued liabilities, partially offset by an increase in accounts receivable and a decrease in deferred revenue.

As at December 31, 2017, the Company had cash and cash equivalents of $25.6 million (December 31, 2016 - $43.2 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, 2017, the Company issued 387,623 shares on the exercise of stock options (2016 – 506,885 shares). Also during the year, ZCL refreshed the Normal Course Issuer Bid ("NCIB") initially implemented in March, 2015. The Company purchased a total of 290,500 shares (December 31, 2016 – nil) at an average price of $10.92 per share. The shares purchased through the NCIB were not cancelled until January 3, 2018, and were owned by the Company as at December 31, 2017.

Cash Flows

	Twelve Months	
($000's)	**2017**	**2016**
Operating activities	**22,929**	28,994
Financing activities	**(34,454)**	(23,083)
Investing activities	**(5,191)**	(2,587)
Foreign exchange[1]	**(329)**	(573)
Discontinued operations	**(607)**	(313)
	(17,652)	2,438

(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 $23.0 million for the year ended December 31, 2017, down $0.6 million from $23.6 million for the year ended December 31, 2016. The decrease from 2016 is primarily due to decreased earnings in 2017 compared to the prior year.

Changes in non-cash working capital totalled negative $0.1 million for the year ended December 31, 2017 compared to $5.4 million for the year ended December 31, 2016. The decrease relative to 2016 was primarily due to increases in accounts receivable and reductions in deferred revenue, offset by increases in accounts payable relative to the prior year.

Financing Activities

Cash flows used in financing activities were $34.5 million for the year ended December 31, 2017 compared to $23.1 million for the year ended December 31, 2016. The increase in cash used in financing activities in 2017 compared to a year earlier was due to an increase of $9.7 million in dividends paid along with $3.2 million in repurchases of shares through the NCIB. The repayment of long term debt of $1.3 million in 2016 did not occur in 2017 as the loan was fully repaid in the prior year.

Investing Activities

The cash flows used in investing activities were $5.2 million for the year ended December 31, 2017 compared to $2.6 million for 2016. The increase was due to increased purchases of property, plant and equipment and intangible assets relative to 2016.

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 three letters of credit for a total of $1.6 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, 2017, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment totalled $13.3 million.

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

($000s)	Operating Leases
2018	2,367
2019	2,279
2020	2,132
2021	2,150
2022	1,770
Thereafter	2,635
Total	13,333

TRANSACTIONS WITH RELATED PARTIES

Certain manufacturing components purchased for $100,000 (2016 - $36,000) for the year ended December 31, 2017, included in the consolidated financial statements as cost of goods sold or inventories, were provided by a corporation whose Executive Chairman was a director of the Company until May 4, 2017. 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, 2017 included $11,000 (December 31, 2016 - $nil) 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 1.25 in the third quarter of 2017 to a high of 1.34 in the fourth quarter of 2016.

For the three months ended	**2017**				**2016**			
(in thousands of dollars,	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
except per share amounts)	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue by Market:								
Fuel	40,354	45,536	42,975	26,914	39,030	49,664	34,978	29,119
Water & Wastewater	7,593	5,811	6,688	4,201	6,433	5,902	6,213	4,398
Oil & Gas/Industrial	2,754	1,074	3,643	626	1,139	2,319	3,528	1,400
Total revenue	50,701	52,421	53,306	31,741	46,602	57,885	44,719	34,917
Net income								
Continuing operations	6,114	5,357	6,031	919	5,749	7,741	4,396	2,132
Discontinued operations *(note 1)*	26	(52)	(374)	(37)	146	(1,249)	(2,842)	(1,094)
Total net income	6,140	5,305	5,657	882	5,895	6,492	1,554	1,038
Adjusted EBITDA *(note 2)*	9,241	9,306	9,467	3,172	9,418	12,125	7,387	4,048
Basic and diluted earnings per share								
Continuing operations	0.19	0.17	0.19	0.03	0.19	0.25	0.14	0.07
Total	0.19	0.17	0.18	0.03	0.19	0.21	0.05	0.03
Adjusted EBITDA per diluted share *(note 2)*	0.30	0.30	0.30	0.10	0.30	0.39	0.24	0.13
Dividends declared per share	0.12	0.12	0.12	0.77	0.08	0.08	0.08	0.58

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."

FOURTH QUARTER RESULTS

Selected Financial Information

(in thousands of dollars, except per share amounts)	Fourth Quarter Ended December 31 2017 $	2016 $
Operating Results		
Revenue	**50,701**	46,602
Gross profit	**11,945**	11,633
Gross margin (note 1)	***24%***	*25%*
General and administration	**2,417**	2,784
Foreign exchange loss (gain)	**380**	(496)
Depreciation and amortization	**795**	858
Finance expense	**92**	51
Loss on disposal of property, plant and equipment	**25**	943
Loss on impairment of property, plant and equipment and intangibles	**97**	-
Income tax expense	**2,025**	1,744
Net income from continuing operations	**6,114**	5,749
Net income from discontinued operations	**26**	146
Net income	**6,140**	5,895
Earnings per share from continuing operations		
Basic and diluted	**0.20**	0.19
Earnings per share		
Basic and diluted	**0.20**	0.19
Cash dividends declared per common share	**0.12**	0.08
Adjusted EBITDA (*note 1*)	**9,241**	9,418
Adjusted EBITDA as a % of revenue	***18%***	*20%*
Adjusted EBITDA per diluted share	**0.30**	0.30

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

Revenue from continuing operations for the fourth quarter ended December 31, 2017, was up $4.1 million, or 9%, from the fourth quarter of 2016. The increase in revenue in 2017 came from all market segments.

Net income from continuing operations in the fourth quarter of 2017 was $6.1 million, up $0.4 million or 6% from $5.7 million a year earlier. Earnings per diluted share from continuing operations in the fourth quarter of 2017 were $0.20, up $0.01 over the prior year.

Net income in the fourth quarter of 2017 was $6.1 million, up $0.2 million or 4% compared to $5.9 million a year earlier. Earnings per share were $0.20, up $0.01 from $0.19 a year earlier.

Revenue

	Fourth Quarter		
($000s)	**2017**	**2016**	**% change**
Fuel	**40,354**	39,030	3%
Water & Wastewater	**7,593**	6,433	18%
Oil & Gas/Industrial	**2,754**	1,139	142%
	50,701	46,602	9%

Revenue from continuing operations for the fourth quarter ended December 31, 2017, was $50.7 million, up $4.1 million, or 9%, from $46.6 million in the fourth quarter of 2016. The increase in revenue in 2017, was led by sales in the emerging markets of Water & Wastewater and Oil & Gas.

The change in revenue reflects the factors noted below:

Fuel

In the fourth quarter of 2017, Fuel revenue was $40.4 million, up $1.3 million or 3% from $39.0 million in the prior year. The increase was attributable to the US Fuel markets, which were up $4.0 million (source currency) compared with a year earlier, led by a $2.3 million or 17% increase in sales to retail petroleum marketers and a 16% increase in sales to distributors. These increases were partially offset by a $0.4 million negative impact on the translation of US dollar denominated sales to Canadian dollars for reporting purposes.

Canadian Fuel revenue was down $1.6 million relative to the fourth quarter of 2016 primarily due to a $1.5 million decrease in distributor sales compared with a year earlier.

Fuel Markets also includes revenue from international operations, which was down $0.6 million compared to the fourth quarter of 2016. The reduction over the prior year was due to a decrease in sales of Parabeam® to licensees, partially offset by an increase in royalty revenue.

Water & Wastewater

Water & Wastewater revenue for the fourth quarter of 2017 of $7.6 million was up $1.2 million, or 18%, from $6.4 million in the fourth quarter of 2016. In the US, Water & Wastewater revenue was up $0.6 million or 14% on a source currency basis, primarily due to increased wastewater market sales.

In Canada, revenue was up $0.7 million or 120% relative to the prior year, also due to increased wastewater and fire protection sales.

Oil & Gas/Industrial

Oil & Gas/Industrial Products revenue of $2.8 million in the fourth quarter of 2017 was $1.6 million, or 124%, higher than $1.1 million in the same quarter a year earlier with the increase attributable to the Canadian Oil & Gas Markets. Oil & Gas revenues in the US were comparable to the prior year.

During the third quarter of 2017, the Company decided to cease offering products to Industrial Markets, including aboveground chemical storage tanks used in Oil Sands applications. A required investment in equipment was not supported by projected low demand in this market segment for the foreseeable future.

Gross Profit

	Fourth Quarter		
($000s)	**2017**	**2016**	**% change**
Gross profit	**11,945**	11,633	3%
Gross margin	***24%***	*25%*	

In the fourth quarter of 2017, gross profit from continuing operations was $11.9 million, up $0.3 million, or 3%, from $11.6 million in the fourth quarter of 2016. Gross margin from continuing operations was 24%, down one percentage point from 25% in the fourth quarter of 2016.

A decrease in gross margin in the fourth quarter of 2017 relative to the prior year was primarily a result of increased spending on manufacturing and engineering projects compared with a year earlier.

General and Administration

($000s)	Fourth Quarter
2017	2,417
2016	2,784
% change	(13%)

General and administration ("G&A") expense of $2.4 million for the fourth quarter ended December 31, 2017 was down $0.4 million or 13% over the fourth quarter of 2016. The decrease was primarily the result of a reduction in performance based compensation recorded in G&A in the fourth quarter of 2017, down $0.4 million compared with a year earlier.

Foreign Exchange Loss (Gain)

($000s)	Fourth Quarter
2017	380
2016	(496)

The foreign exchange loss (gain) for each quarter related to the combination of fluctuations in the US dollar and euro conversion rate and the US and euro 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	2017		2016			
	Avg.	Close	Avg.	Close	Avg. Change	Close Change
USD	**1.27**	**1.26**	**1.34**	**1.34**	(5%)	(6%)
euro	**1.50**	**1.50**	**1.44**	**1.42**	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)	Fourth Quarter
2017	795
2016	858
% change	(7%)

Depreciation and amortization expense for the fourth quarter ended December 31, 2017 of $0.8 million was comparable to the fourth quarter ended December 31, 2016.

Loss on Disposal of Assets

($000s)	Fourth Quarter
2017	25
2016	943

During 2016, the $0.9 million loss on disposal of assets 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 three months ended December 31, 2017, represented 25% of pre-tax income, compared to 23% of pre-tax income in the same quarter of 2016. The increase in the income tax rate relative to the prior year is primarily attributable to withholding tax payments on cash repatriations from US subsidiaries, partially offset by reductions in enacted future tax rates.

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
2017	71
2016	1,841

The foreign translation gain in the fourth quarter of 2017 was due to strengthening of the US dollar relative to the Canadian dollar throughout the three months from 1.25 to 1.26. In the fourth quarter of 2016, the US dollar also strengthened from 1.31 to 1.34.

Financial Position/Cash Flows

The Company's working capital (current assets less current liabilities) of $52.9 million as at December 31, 2017, was down $1.9 million compared to $54.8 million at September 30, 2017. The quarter over quarter working capital reduction was primarily the result of a decrease in inventories, partially offset by a reduction in deferred revenue.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk), liquidity 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, 2017.

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, 2017. 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, 2017, was as follows:

(in thousands of US dollars)	$
Foreign operations	21,888
Domestic operations	11,883
Net balance sheet exposure	33,771

Operating exposure for the twelve months ended December 31, 2017, was as follows:

(in thousands of US dollars)	$
Sales	121,812
Operating expenses	96,759
Net operating exposure	25,053

The weighted average US to Canadian dollar translation rate was 1.30 for the year ended December 31, 2017. The translation rate as at December 31, 2017, was 1.26.

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, 2017, as follows:

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	1,773
Net operating exposure of foreign operations	3,118
Change in net income	4,891

Other comprehensive income would have changed $2.8 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, 2017, no customer

exceeded 10% of the consolidated trade accounts receivable balance. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

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

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of $27.3 million as at December 31, 2017 (December 31, 2016 - $25.0 million). On a geographic basis as at December 31, 2017, approximately 24% (December 31, 2016 – 16%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 76% (December 31, 2016 – 84%) 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 2016.

Payment terms are generally net 30 days. As at December 31, 2017, the percentages of trade accounts receivable were as follows:

	December 31, 2017	December 31, 2016
Current	**57%**	50%
Past due 1 to 30 days	**22%**	26%
Past due 31 to 60 days	**11%**	13%
Past due 61 to 90 days	**7%**	9%
Past due greater than 90 days	**3%**	2%
Total	**100%**	100%

Liquidity Risk

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

The Company has pledged as general collateral for advances under the operating credit facility 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, and Oil & Gas markets; drilling activity and oil and natural gas prices, environmental trends 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, 2017 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

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 January 1, 2018 using the modified retrospective method . During 2017, 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 2017 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 current practice. The Company is currently evaluating the effect IFRS 15 will have on longer term warranty arrangements.

(ii) Pre-buy orders and bill and hold arrangements

The Company enters into several "pre-buy" arrangements with major customers where the customer orders and pays for tanks during the winter months, when shipments are slow, with the expectation that the Company will manufacture the tanks and hold them on premise under a bill and hold contract. Typically these tanks are shipped in the spring and summer months. The Company continued its evaluation of the effect IFRS 15 will have on pre-buy arrangements during the fourth quarter of 2017, specifically whether the purchase order for the tank and bill and hold contract should be combined and the impacts on allocating the transaction price between the performance obligations of manufacturing the product and the service of storing the product.

(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 presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The Company will be required to disclose significant judgments made when determining the transaction price, the allocation of the transaction price and specific performance obligations. In addition, the Company expects to increase the disclosure of disaggregated revenue by region, market segment and product lines. During the fourth quarter of 2017, the Company continued its evaluation of the impact of the increased disclosures including updating procedures necessary to collect and disclose such information.

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. In 2018, the Company will continue its assessment of the impact of the IFRS 16 on its consolidated financial statements and internal control processes.

IFRS 9 Amendments: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9: *Financial Instruments* that replaces IAS 39 *Financial Instruments – Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective after January 1, 2018. The Company will adopt the new standard and will not restate the comparative information. The Company is currently assessing the impacts of the new standard and expects no significant impact to the consolidated statements of income and the balance sheets

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, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017 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, 2017, 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, 2017, 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 7, 2018, there were 30,871,078 common shares and 699,823 share options outstanding. Of the options outstanding, 190,126 are currently exercisable into common shares. In 2017, ZCL repurchased 290,500 shares through the Normal Course Issuer Bid ("NCIB"). The 290,500 repurchased shares were cancelled on January 3, 2018. In the prior year ended December 31, 2016, nil shares were repurchased and cancelled through the NCIB.

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		
	2017	**2016**	**2017**	**2016**	**2015**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Net income from continuing operations	**6,114**	5,749	**18,421**	20,018	17,513
Adjustments:					
Depreciation and amortization	**795**	858	**3,196**	3,393	3,374
Finance expense	**92**	51	**243**	273	319
Income tax expense	**2,025**	1,744	**7,784**	8,005	6,502
Share-based compensation	**93**	73	**321**	303	407
Loss on disposal of property, plant & equipment	**25**	943	**96**	938	32
Loss on impairment of property, plant and equipment	**97**	-	**1,124**	46	-
Adjusted EBITDA	**9,241**	9,418	**31,185**	32,976	28,147
Adjusted EBITDA as a percentage of revenue	**18%**	20%	**17%**	18%	17%

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

	Fourth Quarter Ended December 31		Year Ended December 31		
	2017	**2016**	**2017**	**2016**	**2015**
Numerator (in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Adjusted EBITDA	**9,241**	9,418	**31,185**	32,976	28,147
Denominator (in thousands)					
Weighted average shares outstanding - basic	**31,097**	30,682	**30,999**	30,515	30,200
Effect of dilutive securities:					
Stock options	**137**	332	**161**	233	165
Weighted average shares outstanding - diluted	**31,234**	31,013	**31,160**	30,748	30,365
Adjusted EBITDA per diluted share	**0.30**	0.30	**1.00**	1.07	0.93

The following table presents the calculation of working capital.

	As at		
	December 31, 2017	**December 31, 2016**	**December 31, 2015**
(in thousands of dollars)	**$**	**$**	**$**
Current assets	**78,482**	99,482	105,032
Current liabilities	**25,562**	25,745	28,251
Working capital	**52,920**	73,737	76,781

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements and forward-looking information as defined under applicable securities legislation (collectively, "forward-looking statements") under the heading "Outlook" and elsewhere concerning future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements 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 & Wastewater, Oil & 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. The use of any of the words such as "seek," "anticipate," "plan," "contemplate," "continue," "estimate," "expect," "intend," "propose," "forecast," "may," "will," "shall," "project," "predict," "potential," "targeting," "intend," "could," "might," "should," "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this document should not be unduly relied upon.

These factors include, but are not limited to, fluctuations in the level of capital expenditures in the Fuel, Water & Wastewater, and Oil & Gas 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, 2017 and 2016

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, 2017 and 2016, 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 audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

Edmonton, Canada
March 7, 2018

MANAGEMENT'S REPORT

March 7, 2018

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, 2017 $	December 31, 2016 $
ASSETS		
Current		
Cash and cash equivalents *[note 10]*	**25,556**	43,208
Accounts receivable *[note 19]*	**27,633**	25,308
Inventories *[note 5]*	**21,285**	27,214
Income taxes recoverable	**2,380**	1,589
Prepaid expenses	**1,628**	2,163
	78,482	99,482
Deferred tax *assets [note 16]*	**169**	—
Property, plant and equipment *[note 7]*	**27,241**	27,001
Intangible assets *[note 8]*	**1,155**	1,466
Goodwill *[note 22]*	**33,681**	35,979
TOTAL ASSETS	**140,728**	163,928
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**18,042**	15,769
Dividends payable *[note 12]*	**3,705**	2,462
Income taxes payable	**485**	625
Deferred revenue	**1,814**	5,384
Current portion of provisions *[note 10]*	**1,516**	1,505
	25,562	25,745
Deferred tax liabilities *[note 16]*	**2,569**	2,822
Long term portion of provisions *[note 10]*	**1,359**	1,266
TOTAL LIABILITIES	**29,490**	29,833
Shareholders' equity		
Share capital *[note 13]*	**79,143**	79,310
Contributed surplus *[note 14]*	**1,731**	1,987
Accumulated other comprehensive income	**6,701**	12,166
Retained earnings	**23,663**	40,632
TOTAL SHAREHOLDERS’ EQUITY	**111,238**	134,095
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**140,728**	163,928

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)	2017 $	2016 $
Revenue	**188,169**	184,123
Manufacturing and selling costs *[note 6]*	**146,798**	140,804
Gross profit	**41,371**	43,319
General and administration *[notes 14 & 18b]*	**9,824**	10,499
Foreign exchange loss	**683**	147
Depreciation and amortization *[notes 7 & 8]*	**3,196**	3,393
Finance expense	**243**	273
Loss on disposal of property, plant and equipment *[note 7]*	**96**	938
Loss on impairment of property, plant and equipment and intangibles *[notes 7 & 8]*	**1,124**	46
	15,166	15,296
Income before income taxes	**26,205**	28,023
Income tax expense (recovery) *[note 16]*		
Current	**7,933**	9,065
Deferred	**(149)**	(1,060)
	7,784	8,005
Net income from continuing operations	**18,421**	20,018
Net loss from discontinued operations *[note 15]*	**(437)**	(5,038)
Net income	**17,984**	14,980
Earnings per share from continuing operations *[note 17]*		
Basic	**$0.59**	$0.66
Diluted	**$0.59**	$0.65
Loss per share from discontinued operations *[note 17]*		
Basic	**($0.01)**	($0.17)
Diluted	**($0.01)**	($0.16)
Earnings per share *[note 17]*		
Basic	**$0.58**	$0.49
Diluted	**$0.58**	$0.49

See accompanying notes

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of dollars)	2017 $	2016 $
Net income	**17,984**	14,980
Translation of foreign operations	**(5,465)**	(3,050)
Total that will be reclassified subsequently to net income	**(5,465)**	(3,050)
Comprehensive income	**12,519**	11,930

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, 2016	**30,774**	**79,310**	**1,987**	**12,166**	**40,632**	**134,095**
Share-based payments *[note 14]*	**—**	**—**	**321**	**—**	**—**	**321**
Shares issued on exercise of stock options *[notes 13 & 14]*	**388**	**2,429**	**—**	**—**	**—**	**2,429**
Shares purchased through normal course issuer bid *[note 13]*	**—**	**(3,173)**	**—**	**—**	**—**	**(3,173)**
Reclassification of fair value of stock options previously expensed *[note 14]*	**—**	**577**	**(577)**	**—**	**—**	**—**
Translation of foreign operations	**—**	**—**	**—**	**(5,465)**	**—**	**(5,465)**
Dividends declared *[note 12]*	**—**	**—**	**—**	**—**	**(34,953)**	**(34,953)**
Net income	**—**	**—**	**—**	**—**	**17,984**	**17,984**
Balance, December 31, 2017	**31,162**	**79,143**	**1,731**	**6,701**	**23,663**	**111,238**
Balance, December 31, 2015	30,267	76,066	2,357	15,216	50,639	144,278
Share-based payments *[note 14]*	—	—	303	—	—	303
Shares issued on exercise of stock options *[notes 13 & 14]*	507	2,571	—	—	—	2,571
Reclassification of fair value of stock options previously expensed *[note 14]*	—	673	(673)	—	—	—
Translation of foreign operations	—	—	—	(3,050)	—	(3,050)
Dividends declared *[note 12]*	—	—	—	—	(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

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of dollars)	2017 $	2016 $
CASH FLOWS FROM CONTINUING OPERATIONS		
Net income from continuing operations	**18,421**	20,018
Add (deduct) items not affecting cash:		
Depreciation and amortization *[notes 7 & 8]*	**3,196**	3,393
Deferred tax recovery	**(149)**	(1,060)
Share-based compensation expense *[note 14]*	**321**	303
Loss on disposal of property, plant and equipment	**96**	938
Loss on impairment of property, plant and equipment and intangibles	**1,124**	46
Funds from continuing operations	**23,009**	23,638
Changes in non-cash working capital:		
Increase in accounts receivable	**(3,937)**	(212)
Decrease in inventories	**4,582**	6,833
Decrease (increase) in prepaid expenses	**469**	(424)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**3,271**	(1,402)
(Decrease) increase in deferred revenue	**(3,708)**	812
Decrease in income taxes payable and recoverable	**(757)**	(251)
Total changes in non-cash working capital	**(80)**	5,356
Cash flows from operating activities	**22,929**	28,994
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares on the exercise of stock options *[notes 13 & 14]*	**2,429**	2,571
Repurchase of shares through Normal Course Issuer Bid *[note 13]*	**(3,173)**	—
Dividends paid *[note 12]*	**(33,710)**	(24,038)
Repayment of long term debt	**—**	(1,258)
Repayment of finance lease	**—**	(358)
Cash flows used in financing activities	**(34,454)**	(23,083)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 7]*	**(4,945)**	(2,536)
Disposal of property, plant and equipment *[note 7]*	**37**	23
Purchase of intangible assets *[note 8]*	**(283)**	(74)
Cash flows used in investing activities	**(5,191)**	(2,587)
Foreign exchange loss on cash held in foreign currency	**(329)**	(573)
Cash flows used in discontinued operations *[note 15]*	**(607)**	(313)
(Decrease) increase in cash and cash equivalents	**(17,652)**	2,438
Cash and cash equivalents, beginning of the year	**43,208**	40,770
Cash and cash equivalents, end of the year	**25,556**	43,208

See accompanying notes

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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 7, 2018.

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 22.

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 expenditures 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 CGU 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 Inc.

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 the 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 or 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, 2017 and 2016, the Company did not have any held to maturity investments on the consolidated balance sheets.

Available for sale financial instruments:
As at December 31, 2017 and 2016, 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, 2017 and 2016, 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 related 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 14.

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

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 January 1, 2018 using the modified retrospective method. During 2017, 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 2017 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 current practice. The Company is currently evaluating the effect IFRS 15 will have on longer term warranty arrangements.

(ii) Pre-buy orders and bill and hold arrangements
The Company enters into several "pre-buy" arrangements with major customers where the customer orders and pays for tanks during the winter months, when shipments are slow, with the expectation that the Company will manufacture the tanks and hold them on premise under a bill and hold contract. Typically these tanks are shipped in the spring and summer months. The Company continued its evaluation of the effect IFRS 15 will have on pre-buy arrangements during the fourth quarter of 2017, specifically whether the purchase order for the tank and bill and hold contract should be combined and the impacts on allocating the transaction price between the performance obligations of manufacturing the product and the service of storing the product.

(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 presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The Company will be required to disclose significant judgments made when determining the transaction price, the allocation of the transaction price and specific performance obligations. In addition, the Company expects to increase the disclosure of disaggregated revenue by region, market segment and product lines. During the fourth quarter of 2017, the Company continued its evaluation of the impact of the increased disclosures including updating procedures necessary to collect and disclose such information.

IFRS 16: Leases

In January 2017, 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. In 2018, the Company will continue its assessment of the impact of the IFRS 16 on its consolidated financial statements and internal control processes.

IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9: *Financial Instruments* that replaces IAS 39 *Financial Instruments – Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective after January 1, 2018. The Company will adopt the new standard and will not restate the comparative information. The Company is currently assessing the impacts of the new standard and expects no significant impact to the consolidated statements of income and the balance sheets.

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, 2017** **$**	**December 31, 2016** **$**
Raw materials	**7,597**	9,931
Work in progress	**4,154**	3,589
Finished goods	**9,534**	13,694
	21,285	27,214

During the year ended December 31, 2017 there was a write-down of $366,000 (December 31, 2016 - $690,000) of inventory to its net realizable value.

6. MANUFACTURING AND SELLING COSTS

For the years ended December 31,

(in thousands of dollars)	**2017** **$**	**2016** **$**
Raw materials and consumables used	**59,672**	63,421
Labour costs	**30,288**	29,626
Other costs	**53,243**	44,336
Net change in inventories of finished goods and work in progress	**3,595**	3,421
	146,798	140,804

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)	Land $	Buildings $	Leaseholds $	Manufacturing Equip. $	Office Equip. $	Auto Equip. $	Total $
Cost							
As at December 31, 2015	5,821	7,206	5,672	31,917	4,038	880	55,534
Additions	—	51	502	1,669	249	245	2,716
Disposals	—	(5)	(1,581)	(5,273)	(1,896)	(729)	(9,484)
Foreign exchange	—	(78)	(92)	(559)	(39)	(35)	(803)
As at December 31, 2016	5,821	7,174	4,501	27,754	2,352	361	47,963
Additions	—	602	174	3,661	236	272	4,945
Disposals	—	—	(156)	(2,035)	(418)	(49)	(2,658)
Foreign exchange	—	(107)	(174)	(573)	(17)	(14)	(885)
As at December 31, 2017	**5,821**	**7,669**	**4,345**	**28,807**	**2,153**	**570**	**49,365**
Accumulated Depreciation							
As at December 31, 2015	—	2,524	3,455	14,498	3,355	497	24,329
Depreciation	—	189	369	1,708	341	105	2,712
Disposals	—	(1)	(1,581)	(3,522)	(1,843)	(658)	(7,605)
Impairment	—	—	780	990	16	119	1,905
Foreign exchange	—	(11)	(69)	(249)	(35)	(15)	(379)
As at December 31, 2016	—	2,701	2,954	13,425	1,834	48	20,962
Depreciation	—	200	436	1,563	358	106	2,663
Disposals	—	—	(156)	(1,830)	(372)	(20)	(2,378)
Impairment	—	8	76	1,013	6	1	1,104
Foreign exchange	—	(30)	(139)	(67)	17	(8)	(227)
As at December 31, 2017	**—**	**2,879**	**3,171**	**14,104**	**1,843**	**127**	**22,124**
Carrying Amount							
As at December 31, 2016	5,821	4,473	1,547	14,329	518	313	27,001
As at December 31, 2017	**5,821**	**4,790**	**1,174**	**14,703**	**310**	**443**	**27,241**

Capital work in progress of $1,309,000 (December 31, 2016 - $623,000) includes $960,000 for manufacturing equipment, $160,000 for buildings, $153,000 for leasehold improvements and $36,000 for office equipment.

During the year ended December 31, 2017, the Company decided to cease offering products to Industrial Markets, which primarily included large diameter aboveground tanks. An impairment analysis on the manufacturing equipment and leasehold improvements used in the production of these large diameter tanks was conducted during the quarter. As a result, impairment charges of $925,000 on manufacturing equipment and $91,000 on leasehold improvements and other equipment were recognized during the year to reduce the carrying amount of the assets to their fair value less costs of disposal, which was determined to be $nil. The Company expects to only recover scrap value for these assets which will likely offset the costs of dismantling and transporting these assets for disposal. The Company used a level 3 fair value hierarchy in determining the expected fair value of the asset as there are no readily observable markets for assets of this nature. There were no discount rates factored into any fair value assumptions or disposal costs.

In addition, the Company performed an impairment analysis on the manufacturing equipment used in the tank lining services which resulted in an impairment charge of $88,000 to reduce the carrying value of the lining equipment to zero. The Company used a level 3 fair value hierarchy in determining the expected fair value of the asset as there are no readily observable markets for assets of this nature.

8. INTANGIBLE ASSETS

(in thousands of dollars)	Customer Relationships $	Brands $	Internally Developed ERP Software $	Other $	Total $
Cost					
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
Additions	—	—	—	283	283
Foreign exchange	(532)	(262)	(149)	(87)	(1,030)
As at December 31, 2017	**7,951**	**4,281**	**3,752**	**5,327**	**21,311**
Accumulated Amortization					
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
Amortization	16	63	374	80	533
Impairment	—	—	—	20	20
Foreign exchange	(531)	(259)	(112)	(87)	(989)
As at December 31, 2017	**7,951**	**4,281**	**2,933**	**4,991**	**20,156**
Carrying Amount					
As at December 31, 2016	17	66	1,230	153	1,466
As at December 31, 2017	**—**	**—**	**819**	**336**	**1,155**

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

9. BANK INDEBTEDNESS – OPERATING CREDIT FACILITY

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 and is typically renewed on an annual basis with the Company's primary lender. The rate of interest charged on the borrowings under the 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, 2017, 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, 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
Amounts used against the provision	(1,017)	(185)	(135)	(1,337)
Additional (reversal of) provision	1,232	424	(29)	1,627
Foreign exchange	(39)	(146)	(1)	(186)
As at December 31, 2017	**1,390**	**1,359**	**126**	**2,875**

Of the $2,875,000 (2016 - $2,771,000) in provisions described above, the Company expects $1,516,000 (2016 - $1,505,000) to settle within 12 months of the balance sheet date. The remaining $1,359,000 (2016 - $1,266,000) 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 $4,650,000 US dollars (2016 - $4,204,000 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. COMMITMENTS

Lease Commitments

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

(in thousands of dollars)	$
2018	2,367
2019	2,279
2020	2,132
2021	2,150
2022	1,770
Thereafter	2,635
	13,333

Other Contractual Obligations

The Company has provided a letter of credit in the amount of $0.3 million (2016 - $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 $1.6 million (2016 - $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, 2017, the issued performance letters of credit totalled $0.02 million (2016 - $0.5 million).

12. DIVIDENDS

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

2017				2016			
Declared	Per share	Paid to shareholders	Total $	Declared	Per share	Paid to shareholders	Total $
March 8, 2017	**$0.65**	**March 31, 2017**	**20,069**	March 2, 2016	$0.50	March 31, 2016	15,195
March 8, 2017	**$0.12**	**April 17, 2017**	**3,717**	May 2, 2016	$0.08	April 15, 2016	2,438
May 3, 2017	**$0.12**	**July 17, 2017**	**3,725**	May 4, 2016	$0.08	July 15, 2016	2,444
August 3, 2017	**$0.12**	**October 16, 2017**	**3,737**	August 4, 2016	$0.08	October 17, 2016	2,448
November 2, 2017	**$0.12**	**January 15, 2018**	**3,705**	November 2, 2016	$0.08	January 16, 2017	2,462
	$1.13		**34,953**		$0.82		24,987

For the years ended December 31,

	2017 $	2016 $
Payable, beginning of the year	**2,462**	1,513
Declared	**34,953**	24,987
Paid in cash	**(33,710)**	(24,038)
Payable, end of the year	**3,705**	2,462

On March 7, 2018, the Company's Board of Directors declared a dividend of $0.135 per common share to be paid on April 16, 2018 to the shareholders of record as of March 31, 2018.

13. SHARE CAPITAL

Authorized

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

Issued and outstanding

During the year ended December 31, 2017, the Company issued 387,623 (2016 – 506,885) common shares at an average rate of $6.27 per share for stock options exercised resulting in cash proceeds to the Company of $2,429,000 (2016 - $2,571,000).

In March 2017, 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 year ended December 31, 2017, the Company purchased total of 290,500 shares (December 31, 2016 – nil) at an average price of $10.92 per share. The shares purchased through the NCIB were not cancelled until January 3, 2018, and were owned by the Company as at December 31, 2017.

As at December 31, 2017, the Company had 31,161,578 common shares outstanding (December 31, 2016 – 30,773,955).

14. 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, 2017, the Company has 699,823 (2016 – 841,581) options outstanding, which expire on dates between December 2018 and March 2022. The outstanding options vest evenly over a three-year period commencing on the anniversary of the original grant date. As at December 31, 2017, 190,126 (2016 – 419,088) 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,

	2017		2016	
	Stock Options #	**Weighted Average Exercise Price $**	Stock Options #	Weighted Average Exercise Price $
Balance, as at January 1	**841,581**	**6.82**	1,156,436	5.83
Granted	**297,869**	**13.29**	295,069	7.85
Exercised	**(387,623)**	**6.27**	(506,885)	5.07
Forfeited	**(46,004)**	**9.23**	(103,039)	7.46
Expired	**(6,000)**	**4.72**	—	—
Balance, as at December 31	**699,823**	**9.78**	841,581	6.82

	2017				
	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 $**
7.09	**83,667**	**7.09**	**0.93**	**83,667**	**7.09**
6.74	**139,073**	**6.74**	**2.24**	**67,392**	**6.74**
7.85	**188,714**	**7.85**	**3.24**	**39,067**	**7.85**
13.29	**288,369**	**13.29**	**4.24**	**—**	**13.29**
6.74 - 13.29	**699,823**	**9.78**	**3.18**	**190,126**	**7.12**

	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

During the year ended December 31, 2017, 297,869 stock options (2016 – 295,069) were granted at an exercise price of $13.29.

During the year ended December 31, 2017, 387,623 stock options (2016 – 506,885) were exercised with a weighted average exercise price of $6.27 (2016 – $5.07) resulting in cash proceeds to the Company of $2,429,000 (2016 – $2,571,000). Compensation expense previously included in contributed surplus of $577,000 (2016 – $673,000) 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, 2017, share-based compensation expense of $321,000 (2016 - $303,000) 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, 2017 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 $1.53 (2016 - $1.18).

	2017	**2016**
Risk-free interest rate (%)	**1.1**	0.6
Expected hold period to exercise (years)	**3.7**	3.8
Volatility in the price of the Company's shares (%)	**27.7**	29.5
Forfeiture rate (%)	**8.7**	8.1
Dividend yield (%)	**6.0**	4.1

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, 2017, the Company awarded 11,912 PSUs (2016 – 23,286) and cancelled nil PSUs (2016 - nil). Compensation expense of $38,000 for the year ended December 31, 2017 (2016 - $156,000) was recognized in general and administrative expenses. As at December 31, 2017, the amortized fair value of the PSUs on the Company's balance sheet was $215,000 (December 31, 2016 - $177,000).

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, 2017, the Company awarded 15,909 DSUs (2016 – 26,790), paid out $145,000 in DSU compensation (2016 - $73,000) and recognized $179,000 of compensation expense (2016 - $496,000) in general and administrative expenses. As at December 31, 2017, the fair value of the DSUs on the Company's balance sheet was $648,000 (December 31, 2016 - $614,000).

15. 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 Inc. 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)	**2017** **$**	**2016** **$**
Revenue	**5**	4,366
Manufacturing and selling costs	**327**	8,425
Gross loss	**(322)**	(4,059)
Depreciation	**—**	301
General and administration	**—**	100
Loss on disposal of equipment	**—**	101
Loss on impairment of assets	**—**	2,420
Foreign exchange loss (gain)	**172**	135
	172	3,057
Loss before income taxes	**(494)**	(7,116)
Income tax recovery	**(57)**	(2,078)
Net loss from discontinued operations	**(437)**	(5,038)

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

(in thousands of dollars)	**2017** **$**	**2016** **$**
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)	**2017** **$**	**2016** **$**
Net loss from discontinued operations	**(437)**	(5,038)
Add (deduct) items not affecting cash:		
Depreciation and amortization expense *[notes 7 & 8]*	**—**	301
Deferred tax recovery	**(170)**	—
Loss on disposal of equipment *[note 7]*	**—**	101
Loss on impairment of equipment and intangibles *[notes 7 & 8]*	**—**	2,420
Purchase of property, plant and equipment *[note 7]*	**—**	(180)
Proceeds on disposal of assets	**—**	2,083
Cash used in discontinued operations	**(607)**	(313)

16. INCOME TAXES

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

(in thousands of dollars)	**2017** **$**	**2016** **$**
Net income before tax	**26,205**	28,023
Statutory federal and provincial taxes at 27% (2016 – 27%)	**7,075**	7,566
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**1,099**	1,652
Effect of permanent differences	**(1,046)**	(1,221)
Withholding taxes on inter-company dividends	**1,092**	—
Enacted changes in income tax laws and other	**(436)**	8
At the effective income tax rate of 30% (2016 – 29%)	**7,784**	8,005

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

(in thousands of dollars)	**2017** **$**	**2016** **$**
Balance, beginning of the year	**2,822**	3,929
Tax recovery during the year recognized in net income	**(149)**	(1,060)
Tax recovery during the year recognized in other comprehensive income	**(104)**	(47)
At the effective income tax rate of 27% (2016 – 27%)	**2,569**	2,822

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

(in thousands of dollars)	**2017** **$**	**2016** **$**
Property, plant and equipment	**2,661**	3,444
Land	**363**	363
Intangible assets	**(52)**	(12)
Inventories	**291**	97
Non-deductible reserves and accrued liabilities	**(694)**	(1,086)
Other	—	16
	2,569	2,822

17. EARNINGS PER SHARE

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

For the years ended December 31,

Numerator (in thousands of dollars)	**2017** **$**	**2016** **$**
Net income from continuing operations	**18,421**	20,018
Net loss from discontinued operations	**(437)**	(5,038)
Net income	**17,984**	14,980

Denominator (in thousands)	**2017** **#**	**2016** **#**
Weighted average shares outstanding - basic	**30,999**	30,514
Effect of dilutive securities:		
Stock options	**161**	234
Weighted average shares outstanding - diluted	**31,160**	30,748

18. RELATED PARTY TRANSACTIONS

a) Transactions in the normal course of operations:

Certain manufacturing components purchased for $100,000 (2016 - $36,000) for the year ended December 31, 2017, included in the consolidated financial statements as cost of goods sold or inventories, were provided by a corporation whose Executive Chairman was a director of the Company until May 4, 2017. 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, 2017 included $11,000 (December 31, 2016 - $nil) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

b) Transactions with key management and directors:

For the years ended December 31,

(in thousands of dollars)	**2017** **$**	**2016** **$**
Salaries, benefits and director fees	**1,672**	1,825
Share-based payments	**301**	700
Total	**1,973**	2,525

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, 2017 and 2016. Share-based payments are the amount of expense recognized in the consolidated statements of income relating to the identified key management and directors.

19. FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not currently have a practice of trading derivatives and had no derivative instruments outstanding at December 31, 2017 and 2016.

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, 2017, 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, 2017. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the year ("balance sheet exposure"), which are separated by domestic and foreign operations, and US dollar denominated revenue and operating expenses during the year ("operating exposure").

Balance sheet exposure as at December 31, 2017,

(in thousands of US dollars)	Foreign Operations $	Domestic Operations $	Total $
Cash and cash equivalents	**23,136**	**1,418**	**24,554**
Accounts receivable	**16,478**	**779**	**17,257**
Accounts payable and accrued liabilities	**(7,129)**	**(911)**	**(8,040)**
Trade balances between foreign and domestic operations	**(10,597)**	**10,597**	**—**
Net balance sheet exposure	**21,888**	**11,883**	**33,771**

Operating exposure for the year ended December 31, 2017,

(in thousands of US dollars)	$
Revenue	**121,812**
Operating expenses	**96,759**
Net operating exposure	**25,053**

The weighted average US to Canadian dollar translation rate was 1.30 for the year ended December 31, 2017. The translation rate as at December 31, 2017 was 1.26.

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, 2017,

(in thousands of US dollars)	$
Net balance sheet exposure of domestic operations	**1,773**
Net operating exposure of domestic operations	**3,118**
Change in net income	**4,891**

Other comprehensive income would have changed by approximately $2,802,000 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, 2017, there were no customers that exceeded 10% of the consolidated trade accounts receivable balance. The creditworthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the creditworthiness of existing customers is monitored.

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

The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of $27,281,000 as at December 31, 2017 (December 31, 2016 - $25,013,000). On a geographic basis as at December 31, 2017, approximately 24% (December 31, 2016 - 16%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 76% (December 31, 2016 - 84%) 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,

	2017	2016
Current	**57%**	50%
Past due 1 to 30 days	**22%**	26%
Past due 31 to 60 days	**11%**	13%
Past due 61 to 90 days	**7%**	9%
Past due greater than 90 days	**3%**	2%
	100%	100%

Despite the established payment terms, customers in the retail fuel markets, 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 $352,000 which include funds receivable from various sales tax refunds, insurance refunds and rebates (December 31, 2016 - $295,000).

The Company had recorded an allowance for doubtful accounts of $215,000 as at December 31, 2017 (December 31, 2016 - $105,000). The allowance is an estimate of the December 31, 2017 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of $279,000 (2016 - $353,000), offset by payments of $58,000 (2016 - $530,000), write offs of $101,000 (2016 - $48,000) and a translation adjustment of $10,000 (2016 - $3,000) for the year ended December 31, 2017.

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	20,917	19,558	1,359	—
Dividends payable	3,705	3,705	—	—
Total	24,622	23,263	1,359	—

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.

20. STATEMENTS OF CASH FLOWS

For the years ended December 31,

(in thousands of dollars)	**2017** **$**	**2016** **$**
Net interest paid	**243**	273
Income taxes paid	**8,895**	7,654
	9,138	7,927

21. 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. Based on management's judgement and applying the aggregation criteria in IFRS 8.12, the Company's operations fall under a single reportable segment.

a) Information about major customers

The Company has long term contracts and alliance arrangements with many North American retail petroleum marketers and distributors in Canada and provides products for distributors and retail oil and gas companies in the US. For the years ended December 31, 2017 and 2016, no single customer exceeded 10% of total revenue.

b) Information about geographic areas

For the years ended December 31,

	Revenue	
(in thousands of dollars)	**2017** **$**	**2016** **$**
Canada	**31,953**	28,389
United States	**148,687**	148,245
International	**7,529**	7,489
	188,169	184,123

	Total Assets		Property, Plant and Equipment, Intangible Assets and Goodwill	
As at	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2016**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Canada	**28,445**	36,327	**18,121**	19,093
United States	**109,868**	124,871	**43,629**	44,856
International	**2,415**	2,730	**327**	497
	140,728	163,928	**62,077**	64,446

22. 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, 2017 was $33,489,000 (2016 - $35,199,000). The Company performed its annual impairment test on the remaining balance of goodwill as at October 1, 2017. 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, 2017, 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, 2017 figures above may differ from the October 1, 2016 carrying amount, along with the years ended December 31, 2017 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 2017 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 2017 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.

As at October 1, 2017, the total recoverable amount of the Company's CGUs exceeded their carrying amounts.

23. PRIOR YEAR RECLASSIFICATION

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

Corporate information

Board of Directors
Anthony (Tony) Franceschini, Chair of the Board
Ronald Bachmeier, President, CEO, Director
Bruce Bentley, Director
Diane Brickner, Director
Leonard Cornez, Director
Darcy Morris, Director
Ralph Young, Director

Annual General & Special Meeting
2 p.m. on Friday, May 4, 2018
at the Four Points by Sheraton
in The Conference Room
10010 - 12 Avenue SW
Edmonton, Alberta
Canada T6X 0P9

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

Common Shares Outstanding
As of March 16, 2018
Total outstanding: 30,877,679

Investor Relations
Copies of this annual report may be obtained by calling Investor Relations at (780) 466-6648 or emailing investor.relations@zcl.com

Transfer Agent & Registrar
AST Trust Company (Canada)
600 The Dome Tower
333 – 7 Avenue SW
Calgary, Alberta
Canada T2P 2Z1

Auditors
Ernst & Young LLP
EPCOR Tower, 10423 – 101 Street
Suite 1400, PO Box 44
Edmonton, Alberta
Canada T5H 0E7

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

Stock Listing and Share Symbol
Toronto Stock Exchange: ZCL

1420 Parsons Road SW
Edmonton, AB T6X 1M5
Canada

Phone: 780.466.6648
Toll Free: 1.800.661.8265

www.zcl.com | TSX: ZCL