

Vitreous Glass Inc.
Financial Statements
For The Years Ended
September 30, 2017 and 2016

Independent Auditors' Report

To the Shareholders of
Vitreous Glass Inc.

We have audited the accompanying financial statements of Vitreous Glass Inc., which comprise the statements of financial position as at September 30, 2017 and September 30, 2016, and the statements of income and comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years ended September 30, 2017 and September 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Vitreous Glass Inc. as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years ended September 30, 2017 and September 30, 2016 in accordance with International Financial Reporting Standards.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
December 7, 2017

Vitreous Glass Inc.
Statements of Financial Position
September 30, 2017 and 2016
(Prepared in Canadian Dollars)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,457,975	\$ 1,528,955
Accounts receivable (note 4)	1,025,964	760,695
Income taxes recoverable	5,986	-
Inventory (note 5)	324,066	308,929
Prepaid expenses (note 6)	<u>374,421</u>	<u>480,220</u>
Total current assets	3,188,412	3,078,799
Property, plant and equipment (note 7)	<u>2,323,718</u>	<u>2,711,686</u>
Total assets	<u>\$ 5,512,130</u>	<u>\$ 5,790,485</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 735,446	\$ 748,401
Income taxes payable	<u>-</u>	<u>5,934</u>
Total current liabilities	735,446	754,335
Deferred income taxes (note 10(a))	<u>387,000</u>	<u>428,000</u>
Total liabilities	<u>1,122,446</u>	<u>1,182,335</u>
Shareholders' Equity		
Share capital (note 11)	2,902,082	2,902,082
Contributed surplus	54,099	54,099
Retained earnings	<u>1,433,503</u>	<u>1,651,969</u>
Total shareholders' equity	<u>4,389,684</u>	<u>4,608,150</u>
Total liabilities and shareholders' equity	<u>\$ 5,512,130</u>	<u>\$ 5,790,485</u>

Commitments and subsequent event (note 14)

See accompanying notes.

Approved by the Board,

(signed) "J. Patrick Cashion" _____, Director

(signed) "Timothy H. Rendell" _____, Director

Vitreous Glass Inc.
Statements of Income and Comprehensive Income
Years Ended September 30, 2017 and 2016
(Prepared in Canadian Dollars)

	2017	2016
Sales	\$ 7,584,266	\$ 8,022,291
Cost of sales (note 5)	<u>3,428,013</u>	<u>3,697,317</u>
Gross margin	<u>4,156,253</u>	<u>4,324,974</u>
Expenses		
General and administrative (note 12)	1,115,463	1,132,074
Amortization (note 7)	<u>402,353</u>	<u>395,565</u>
	<u>1,517,816</u>	<u>1,527,639</u>
Income from operations	2,638,437	2,797,335
Gain on disposal of property, plant and equipment	<u>-</u>	<u>58,300</u>
Income before income taxes	<u>2,638,437</u>	<u>2,855,635</u>
Income taxes (note 10(b)) - current	761,457	753,364
- deferred (recovery)	<u>(41,000)</u>	<u>9,179</u>
	<u>720,457</u>	<u>762,543</u>
Net income and comprehensive income	<u>\$ 1,917,980</u>	<u>\$ 2,093,092</u>
Earnings per share (note 11(c))		
Basic	<u>\$ 0.30</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 0.33</u>

See accompanying notes.

Vitreous Glass Inc.
Statements of Changes in Shareholders' Equity
Years Ended September 30, 2017 and 2016
(Prepared in Canadian Dollars)

	Common shares	Share capital stated value	Contributed surplus	Retained earnings	Total shareholders' equity
Balance - September 30, 2015	6,233,667	\$ 2,790,932	\$ 73,749	\$ 2,248,353	\$ 5,113,034
Net income and comprehensive income	-	-	-	2,093,092	2,093,092
Exercise of stock options	50,000	91,500	-	-	91,500
Transfer from exercise of stock options	-	19,650	(19,650)	-	-
Dividends paid (note 11(d))	-	-	-	(2,689,476)	(2,689,476)
Balance - September 30, 2016	6,283,667	2,902,082	54,099	1,651,969	4,608,150
Net income and comprehensive income	-	-	-	1,917,980	1,917,980
Dividends paid (note 11(d))	-	-	-	(2,136,446)	(2,136,446)
Balance - September 30, 2017	<u>6,283,667</u>	<u>\$ 2,902,082</u>	<u>\$ 54,099</u>	<u>\$ 1,433,503</u>	<u>\$ 4,389,684</u>

See accompanying notes.

Vitreous Glass Inc.
Statements of Cash Flows
Years Ended September 30, 2017 and 2016
(Prepared in Canadian Dollars)

	2017	2016
Cash and cash equivalents provided by (used in):		
Operating activities		
Net income	\$ 1,917,980	\$ 2,093,092
Items not affecting cash		
Amortization	402,353	395,565
Gain on disposal of property, plant and equipment	-	(58,300)
Deferred income taxes (recovery)	<u>(41,000)</u>	<u>9,179</u>
	2,279,333	2,439,536
Changes in non-cash working capital (note 13)	<u>(199,482)</u>	<u>1,078,683</u>
Net cash provided by operating activities	<u>2,079,851</u>	<u>3,518,219</u>
Financing activities		
Issuance of share capital	-	91,500
Dividends paid	<u>(2,136,446)</u>	<u>(2,689,476)</u>
Net cash used in financing activities	<u>(2,136,446)</u>	<u>(2,597,976)</u>
Investing activities		
Acquisition of property, plant and equipment	(14,385)	(103,094)
Proceeds on disposal of property, plant and equipment	<u>-</u>	<u>120,000</u>
Net cash from (used in) investing activities	<u>(14,385)</u>	<u>16,906</u>
Cash inflow (outflow)	(70,980)	937,149
Cash and cash equivalents, beginning of year	<u>1,528,955</u>	<u>591,806</u>
Cash and cash equivalents, end of year	<u>\$ 1,457,975</u>	<u>\$ 1,528,955</u>
Cash and cash equivalents consists of:		
Cash on deposit with banks	<u>\$ 1,457,975</u>	<u>\$ 1,528,955</u>
Supplemental cash flows information:		
Income taxes paid	<u>\$ 773,377</u>	<u>\$ 770,163</u>

See accompanying notes.

Vitreous Glass Inc.
Notes to Financial Statements
Years Ended September 30, 2017 and 2016
(Prepared in Canadian Dollars)

1. General business description

Vitreous Glass Inc. ("Vitreous" or the "Company") cleans, crushes and sells waste glass to the fiberglass manufacturing industry in the province of Alberta. Vitreous' common shares are listed and posted for trading on the TSX Venture Exchange under the symbol VCI.

The head office and principal address of the Company is 212 East Lake Blvd., Airdrie, Alberta.

These financial statements were approved and authorized for issuance by the Board of Directors on December 7, 2017.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Vitreous Glass Inc.
Notes to Financial Statements
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The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Existence and valuation of inventory

Existence of inventory is based on management's estimate of the volume of waste glass held in inventory. Valuation of inventory is based on management's best estimate based on historical experience relating to the percentage of shrinkage of raw material and waste that may occur, costs to convert raw material into finished goods and ultimate selling prices less costs to sell inventory.

Useful life of property, plant and equipment

Property, plant and equipment are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the year.

Impairment of property, plant and equipment

When there are indications that property, plant and equipment may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs of disposal. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

Critical judgments in applying accounting policies

In preparing these financial statements, the Company has made judgments in addition to estimates in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

Property, plant and equipment

Management makes judgments in determining the classification of major components that are capitalized to property, plant and equipment.

Income taxes

Amounts recorded for current and deferred income taxes requires management to make judgments in the interpretation and application of relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax returns by the relevant authorities and the statute barred period has lapsed, which occurs subsequent to the issuance of the financial statements. Tax returns filed and the availability of tax pools are subject to audit and interpretation by taxation authorities.

Vitreous Glass Inc.
Notes to Financial Statements
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3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with banks and short-term deposits with initial maturities at date of purchase of three months or less. Operating line of credit forms an integral part of the Company's cash management and as a result, is included as a component of cash and cash equivalents.

(b) Inventory

Inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Cost is determined on a first-in, first-out basis.

Raw material inventory includes the cost of materials plus freight, less an allowance for shrinkage and waste. Crushed glass inventory also includes, where applicable, an allocation of direct labour, direct and indirect overhead costs.

(c) Property, plant and equipment

Recognition and measurement

Property, plant and equipment are initially recorded at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Such costs include appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses, with the exception of land which is not amortized.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income in the period incurred.

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Costs of day-to-day servicing of property, plant and equipment are recognized in the statement of income as incurred.

Amortization

Amortization is provided over the estimated useful lives of the assets as follows:

Building	20 years straight-line
Plant and equipment	20 years straight-line
Furniture and fixtures	20% declining balance
Computer equipment and software	30% declining balance

Leasehold improvements are amortized over the term of the lease.

Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted prospectively, if appropriate.

(d) Impairment of non-financial assets

At each reporting date, the Company reviews non-financial assets to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of income.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The recoverable amount is based on the higher of an asset or cash generating units' fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows to be derived from the asset in its current state are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior periods.

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(e) Financial instruments

(i) Classification and measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through the statement of income”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined by IAS 39, *“Financial Instruments: Recognition and Measurement”*.

Financial assets and financial liabilities at “fair value through the statement of income” are either classified as “held for trading” or “designated at fair value through the statement of income” and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents as “held for trading”.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through the statement of income” and that are not derivatives. The Company has designated accounts receivable as “loans and receivables” and accounts payable and accrued liabilities as “financial liabilities measured at amortized cost”.

Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company has not designated any financial assets as “available-for-sale”.

(ii) Equity instruments

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any income tax effects.

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(iii) Impairment

The Company assesses at each reporting date whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of income” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(f) Provisions and contingent liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(g) Revenue recognition

Sales are recognized when crushed glass is shipped to the customer, the risks and benefits inherent to ownership have been transferred to the customer and collection is reasonably assured.

(h) Stock-based compensation

The Company uses the fair value-based method of accounting for stock options under which compensation expense is recorded based on the estimated fair value of the options on the grant date using the Black-Scholes option pricing model. The Company measures stock-based compensation to non-employees at the fair value of the goods or services received at the date goods or services are received. If the fair value of goods or services cannot be measured reliably, the value of the options granted is measured using the Black-Scholes option pricing model.

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Notes to Financial Statements
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Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Finance income and expenses

Finance income is comprised of interest on cash and cash equivalents held at financial institutions and is recognized as it accrues in the statement of income using the effective interest method.

Finance expenses are comprised of interest expense on borrowings and impairment losses recognized on financial assets.

(j) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if in-the-money stock options were exercised. The Company uses the treasury stock method for outstanding stock options which assumes that all outstanding stock options with exercise prices below average Company market prices are exercised and assumed proceeds plus the unamortized portion of stock-based compensation are used to purchase the Company's common shares at the average Company market price during the period.

(l) Recent accounting pronouncements not yet adopted

The Company continues to assess the impact of adopting the following pronouncements from the IASB:

Pronouncements effective for annual periods beginning on or after January 1, 2018

IFRS 9 - "*Financial Instruments*"

IFRS 9 provides a comprehensive standard on accounting for financial instruments. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting.

IFRS 15 - "*Revenue from Contracts with Customers*"

IFRS 15 outlines how to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. IFRS 15 also results in enhanced disclosures about revenue, provides guidance for transactions not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements.

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Pronouncements effective for annual periods beginning on or after January 1, 2019

IFRS 16 - "Leases"

IFRS 16 specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, and lessor accounting is substantially unchanged from its predecessor, IAS 17. Upon adoption, a lessee shall either apply IFRS 16 with full retrospective effect or alternatively, not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity. Early adoption is permitted if IFRS 15 is also adopted.

4. Accounts receivable

Accounts receivable consists entirely of trade accounts receivable. The Company did not incur any bad debts expense or set up any allowance for doubtful accounts during the years ended September 30, 2017 or 2016.

5. Inventory

	2017	2016
Raw material	\$ 303,766	\$ 282,329
Crushed glass	<u>20,300</u>	<u>26,600</u>
	<u>\$ 324,066</u>	<u>\$ 308,929</u>

Cost of sales is comprised of:

	2017	2016
Cost of raw glass sold	\$ 1,590,216	\$ 1,823,878
Salaries and employee benefits	890,013	849,674
Repair and maintenance	324,756	346,915
Other facility operating costs	<u>623,028</u>	<u>676,850</u>
	<u>\$ 3,428,013</u>	<u>\$ 3,697,317</u>

No inventory write-downs or reversals of prior write-downs were recorded during the years ended September 30, 2017 or 2016.

Vitreous Glass Inc.
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6. Prepaid expenses

	2017	2016
Prepaid expenses	\$ 52,387	\$ 93,811
Repairs and maintenance replacement parts	<u>322,034</u>	<u>386,409</u>
	<u>\$ 374,421</u>	<u>\$ 480,220</u>

7. Property, plant and equipment

	Land	Building	Plant and Equipment	Furniture and Fixtures	Computer Equipment and Software	Leasehold Improvements	Total
Cost							
Balance, at September 30, 2015	\$ 420,000	\$ 668,722	\$ 7,202,653	\$ 40,232	\$ 102,930	\$ 37,580	\$ 8,472,117
Additions	-	13,761	89,333	-	-	-	103,094
Disposal	<u>-</u>	<u>-</u>	<u>(61,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,700)</u>
Balance, at September 30, 2016	420,000	682,483	7,230,286	40,232	102,930	37,580	8,513,511
Additions	<u>-</u>	<u>-</u>	<u>14,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,385</u>
Balance, at September 30, 2017	<u>\$ 420,000</u>	<u>\$ 682,483</u>	<u>\$ 7,244,671</u>	<u>\$ 40,232</u>	<u>\$ 102,930</u>	<u>\$ 37,580</u>	<u>\$ 8,527,896</u>
Accumulated amortization							
Balance, at September 30, 2015	\$ -	\$ 236,150	\$ 5,027,155	\$ 35,530	\$ 95,956	\$ 11,469	\$ 5,406,260
Amortization	<u>-</u>	<u>33,780</u>	<u>356,150</u>	<u>940</u>	<u>2,092</u>	<u>2,603</u>	<u>395,565</u>
Balance, at September 30, 2016	-	269,930	5,383,305	36,470	98,048	14,072	5,801,825
Amortization	<u>-</u>	<u>34,124</u>	<u>362,254</u>	<u>752</u>	<u>1,465</u>	<u>3,758</u>	<u>402,353</u>
Balance, at September 30, 2017	<u>\$ -</u>	<u>\$ 304,054</u>	<u>\$ 5,745,559</u>	<u>\$ 37,222</u>	<u>\$ 99,513</u>	<u>\$ 17,830</u>	<u>\$ 6,204,178</u>
Net book value							
At September 30, 2016	<u>\$ 420,000</u>	<u>\$ 412,553</u>	<u>\$ 1,846,981</u>	<u>\$ 3,762</u>	<u>\$ 4,882</u>	<u>\$ 23,508</u>	<u>\$ 2,711,686</u>
At September 30, 2017	<u>\$ 420,000</u>	<u>\$ 378,429</u>	<u>\$ 1,499,112</u>	<u>\$ 3,010</u>	<u>\$ 3,417</u>	<u>\$ 19,750</u>	<u>\$ 2,323,718</u>

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8. Operating line of credit

The Company has available a revolving demand operating line of credit to a maximum of \$750,000 bearing interest at prime plus 0.9% per annum. The credit facility is limited to 75% of "good" accounts receivable as defined in the facility agreement and is secured by a general security agreement covering all property of the Company. At September 30, 2017 and 2016, \$NIL was drawn on the facility. Under the terms of the facility, the Company is required to meet a tangible net worth of at least \$1,250,000 covenant, calculated as defined in the agreement, and has certain reporting requirements. At September 30, 2017 and 2016, the Company was in compliance with the financial covenant and reporting requirements.

9. Accounts payable and accrued liabilities

	2017	2016
Trade	\$ 278,010	\$ 272,669
Accrued liabilities	172,733	172,545
Salaries and employee benefits and profit sharing based on net income/operating cash flows	<u>284,703</u>	<u>303,187</u>
	<u>\$ 735,446</u>	<u>\$ 748,401</u>

10. Income taxes

- (a) Deferred income taxes liability consists of the estimated deferred income taxes on the amount by which net book value of property, plant and equipment exceeds its tax values.

In addition, the Company has capital losses available of \$52,429 (2016 - \$52,429) for carryforward indefinitely for which no benefit has been recognized.

- (b) Income taxes expense differs from the amount obtained by applying the statutory income tax rate of 27% (2016 - 27.0%) to income before income taxes as follows:

	2017	2016
Expected income tax expense	\$ 712,378	\$ 771,021
Increase (decrease) resulting from:		
Non-deductible expenses	8,079	7,264
Non-taxable portion of gain on disposal of property, plant and equipment	-	(7,871)
Capital loss carryforward not previously recognized	<u>-</u>	<u>(7,871)</u>
Actual income tax expense	<u>\$ 720,457</u>	<u>\$ 762,543</u>

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11. Share capital

(a) Authorized

Unlimited number of common shares without nominal or par value

(b) Stock option plan

The Company has established a stock option plan for the benefit of the directors, officers, employees and consultants of the Company. Options granted under the plan have a five-year term and have vesting periods as determined by the Company's directors at the date of grant. The exercise price of each option equals the market price of the Company's shares at the date of grant.

A summary of the status of the Company's stock option plan as at September 30, 2017 and 2016 and changes during the years then ended is as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	50,000	\$ 1.83
Exercised	<u>-</u>	-	<u>(50,000)</u>	1.83
Outstanding and exercisable, end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

(c) Earnings per share

The weighted average number of common shares used in the calculation of earnings per share is as follows:

	2017	2016
Basic and diluted	<u>6,283,667</u>	<u>6,255,721</u>

(d) Dividends paid

During the year, the Company declared and paid dividends on its common shares totalling a weighted average of \$0.34 (2016 - \$0.43) per share.

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12. General and administrative expenses

General and administrative expenses are comprised of:

	2017	2016
Salaries and employee benefits and director fees	\$ 140,838	\$ 137,927
Profit sharing	765,432	800,659
Professional and consulting fees	42,515	32,561
Other general expenses	<u>166,678</u>	<u>160,927</u>
	<u>\$ 1,115,463</u>	<u>\$ 1,132,074</u>

13. Changes in non-cash working capital

	2017	2016
Accounts receivable	\$ (265,269)	\$ 1,263,459
Inventory	(15,137)	61,218
Prepaid expenses	105,799	(103,473)
Accounts payable and accrued liabilities	(12,955)	(125,722)
Income taxes recoverable/payable	<u>(11,920)</u>	<u>(16,799)</u>
	<u>\$ (199,482)</u>	<u>\$ 1,078,683</u>

14. Commitments and subsequent event

- (a) The Company is committed to monthly payments of \$2,494 under an operating lease for a front-end loader expiring April 30, 2019.
- (b) The Company is committed to monthly payments of \$2,000 under a property lease for storage of the Company's raw material inventory expiring May 31, 2022.
- (c) On October 17, 2017, the Board of Directors declared a cash dividend of \$0.08 per common share which was paid on November 15, 2017 to the shareholders of record on November 1, 2017.

15. Economic dependence

During the years ended September 30, 2017 and 2016, all sales were to three customers in the fiberglass manufacturing industry of which two customers exceeded 10% of total sales. Sales to these two customers represented \$4,342,161 (2016 - \$4,209,231) and \$2,494,839 (2016 - \$3,143,684) respectively, of total sales.

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16. Related party transactions

Compensation to key management personnel

Key management includes the Board of Directors, President and Chief Executive Officer and Chief Financial Officer.

The aggregate key management compensation for the year is as follows:

	2017	2016
Salaries and employee benefits, consulting fees, and profit sharing based on operating cash flows	\$ <u>948,785</u>	\$ <u>971,145</u>

Of the above key management compensation, \$160,757 (2016 - \$119,859) is included in accounts payable and accrued liabilities at year-end under normal trade terms.

17. Financial instruments and risk management

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Company employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, Vitreous' management has the responsibility to administer and monitor these risks.

(b) Fair values of financial instruments

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to immediate or short-term maturity of these financial instruments.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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Level 1 - reflects valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 - reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - reflects valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The financial instruments in the Company's financial statements measured at Level 1 fair value are cash and cash equivalents.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if any counterparty fails to discharge its obligations.

Accounts receivable consists of sales of crushed glass to fiberglass manufacturers and, as such, are subject to normal industry credit risks.

The Company grants unsecured credit but routinely assesses the financial strength of its customers.

At September 30, 2017, 96% (2016 - 97%) of accounts receivable are due from two customers.

At each period-end, the Company assesses if there has been any impairments of accounts receivable. At September 30, 2017 and 2016, the Company had no accounts receivable past due based on customer credit terms, which was received subsequent to year-end. There was no impairment provision required on accounts receivable based on historical collections.

Credit risk also exists in cash and cash equivalents, which is mitigated by the Company holding cash and cash equivalents with major Canadian financial institutions.

The maximum exposure to credit risk is represented by the fair value of cash and cash equivalents and accounts receivable.

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(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities, consisting entirely of accounts payable and accrued liabilities, as they become due. The Company manages this risk through continuously monitoring budgeted and projected operating results and capital expenditure programs. The Company also has available a credit facility to manage liquidity risk (note 8). The Company currently does not have any plans for major expenditures and expects to pay its financial liabilities in the normal course of operations as they become due over the next year. The Company is also required to meet certain financial commitments as disclosed in note 14.

(e) Market risk

The Company is exposed to market risk with respect to interest rate cash flow risk when the operating line of credit is drawn on.

(f) Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish a quantitative return on capital criteria for management, but rather promotes year over year sustainable net income and cash flow to provide dividends to shareholders. The Company defines capital as shareholders' equity.

The Company is not subject to any externally imposed capital requirements other than the tangible net worth covenant on its credit facility (note 8).

There have been no changes to capital management during the year ended September 30, 2017.