

Vitreous Glass Inc.
Condensed Interim Financial Statements
Three and Nine Months Ended June 30, 2017
(unaudited)

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Vitreous Glass Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Calgary, Canada
August 4, 2017

Vitreous Glass Inc.
Condensed Interim Statements of Financial Position

(Prepared in Canadian Dollars)
(unaudited)

	June 30, 2017	September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,081,139	\$ 1,528,955
Accounts receivable (note 3)	1,198,496	760,695
Inventory (note 4)	228,332	308,929
Prepaid expenses (note 5)	459,226	480,220
Total current assets	2,969,193	3,078,799
Property, plant and equipment (note 6)	2,419,453	2,711,686
	\$ 5,388,646	\$ 5,790,485
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 727,036	\$ 748,401
Income taxes payable	17,068	5,934
	744,104	754,335
Deferred income taxes	397,000	428,000
Total liabilities	1,141,104	1,182,335
Shareholders' Equity		
Share capital (note 9)	2,902,082	2,902,082
Contributed surplus	54,099	54,099
Retained earnings	1,291,361	1,651,969
Total shareholders' equity	4,247,542	4,608,150
Total liabilities and shareholders' equity	\$ 5,388,646	\$ 5,790,485

Commitments and subsequent event (note 12)

See accompanying notes.

Approved by the Board:

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

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

Vitreous Glass Inc.

Condensed Interim Statements of Income and Comprehensive Income

For the Three Months and Nine Months Ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

	Three months ended		Nine months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales	\$ 1,898,734	\$ 1,930,621	\$ 5,692,287	\$ 6,292,627
Cost of sales (note 4)	840,394	918,667	2,548,437	2,901,869
Gross margin	1,058,340	1,011,954	3,143,850	3,390,758
Expenses				
General and administrative (note 10)	285,100	268,483	832,500	872,279
Amortization	100,558	99,063	301,672	296,674
	385,658	367,546	1,134,172	1,168,953
Income before income taxes	672,682	644,408	2,009,678	2,221,805
Income taxes - current	193,662	173,387	579,023	598,534
- deferred (recovery)	(10,000)	6,000	(31,000)	(3,821)
	183,662	179,387	548,023	594,713
Net income and comprehensive income	\$ 489,020	\$ 465,021	\$ 1,461,655	\$ 1,627,092
Net income per share - basic (note 9(c))	\$ 0.08	\$ 0.07	\$ 0.23	\$ 0.26
Net income per share - diluted (note 9(c))	\$ 0.08	\$ 0.07	\$ 0.23	\$ 0.26

See accompanying notes.

Vitreous Glass Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

(Prepared in Canadian Dollars)

(unaudited)

	Common shares	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	-	-	-	1,627,092	1,627,092
Issued during the period					
Stock option exercised for cash	50,000	91,500	-	-	91,500
Transfer from exercise of stock options	-	19,650	(19,650)	-	-
Dividends paid	-	-	-	(1,935,438)	(1,935,438)
Balance – June 30, 2016	6,283,667	2,902,082	54,099	1,940,007	4,896,188
Net income and comprehensive income	-	-	-	466,000	466,000
Dividends paid	-	-	-	(754,038)	(754,038)
Balance – September 30, 2016	6,283,667	2,902,082	54,099	1,651,969	4,608,150
Net income and comprehensive income	-	-	-	1,461,655	1,461,655
Dividends paid	-	-	-	(1,822,263)	(1,822,263)
Balance – June 30, 2017	6,283,667	\$ 2,902,082	\$ 54,099	\$ 1,291,361	\$ 4,247,542

See accompanying notes.

Vitreous Glass Inc.

Condensed Interim Statements of Cash Flows

For the Three Months and Nine Months Ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

	Three months ended		Nine months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Cash and cash equivalents provided by (used in)				
Operating activities				
Net income	\$ 489,020	\$ 465,021	\$ 1,461,655	\$ 1,627,092
Add (deduct) items not affecting cash				
Amortization	100,558	99,063	301,672	296,674
Deferred income taxes	(10,000)	6,000	(31,000)	(3,821)
	579,578	570,084	1,732,327	1,919,945
Changes in non-cash working capital (note 11)	198,971	350,008	(346,441)	373,377
Net cash provided by operating activities	778,549	920,092	1,385,886	2,293,322
Financing activities				
Proceeds from issuance of share capital	-	91,500	-	91,500
Dividends paid	(754,040)	(377,019)	(1,822,263)	(1,935,438)
Net cash used in financing activities	(754,040)	(285,519)	(1,822,263)	(1,843,938)
Investing activity				
Acquisition of property, plant and equipment	-	(13,760)	(9,439)	(41,393)
Net cash used in investing activity	-	(13,760)	(9,439)	(41,393)
Cash inflow	24,509	620,813	(445,816)	407,991
Cash and cash equivalents, beginning of period	1,058,630	378,984	1,528,955	591,806
Cash and cash equivalents, end of period	\$ 1,083,139	\$ 999,797	\$ 1,083,139	\$ 999,797
Cash and cash equivalents consists of:				
Cash on deposit with banks	\$ 1,083,139	\$ 999,797	\$ 1,083,139	\$ 999,797
Operating line of credit	-	-	-	-
	\$ 1,083,139	\$ 999,797	\$ 1,083,139	\$ 999,797
The amounts paid for income taxes are included in cash flows from operating activities in the statement of cash flows.				
Income taxes paid	\$ 182,691	\$ 201,169	\$ 567,889	\$ 636,384

See accompanying notes.

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

For the nine months ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

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, T4A 0H5.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 4, 2017.

2. Basis of preparation

Statement of compliance

These condensed financial statements were prepared following the same accounting policies and methods of computation as the audited annual financial statements for the year ended September 30, 2016. They were reported in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" as issued by the International Accounting Standards Board (IASB). Accordingly, certain financial information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) has been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the audited annual financial statements

The condensed financial statements should be read in conjunction with Vitreous' annual audited financial statements for the year ended September 30, 2016.

3. Accounts receivable

Accounts receivable for the period ended June 30, 2017 and year ended September 30, 2016 consists solely of trade receivables.

The Company has not incurred any bad debts or set up any allowance for doubtful accounts for the period ended June 30, 2017 and for the year ended September 30, 2016.

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

For the nine months ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

4. Inventory

	June 30, 2017	September 30, 2016
Raw material	\$ 201,732	\$ 282,329
Crushed glass	26,600	26,600
	<u>\$ 228,332</u>	<u>\$ 308,929</u>

Cost of sales comprises the following costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Cost of glass sold	\$ 392,048	\$ 411,070	\$ 1,206,371	\$ 1,425,638
Labour and employee benefits	224,584	207,290	669,536	640,031
Repairs and maintenance	72,612	146,004	207,726	314,080
Other facility operating costs	151,150	154,303	464,804	522,120
Total cost of sales	<u>\$ 840,394</u>	<u>\$ 918,667</u>	<u>\$ 2,548,437</u>	<u>\$ 2,901,869</u>

No inventory write-downs or reversals of prior write-downs were recorded during the periods.

5. Prepaid expenses

	June 30, 2017	September 30, 2016
Prepaid expenses	\$ 72,817	\$ 93,811
Repairs and maintenance replacement parts	386,409	386,409
	<u>\$ 459,226</u>	<u>\$ 480,220</u>

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

For the nine months ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

6. Property, plant and equipment

	Land	Building	Plant and Equipment	Furniture and Fixtures	Computer Equipment and Software	Leasehold Improvements	Total
Cost							
Balance, at September 30, 2016	\$ 420,000	\$ 682,483	\$ 7,230,286	\$ 40,232	\$ 102,930	\$ 37,580	\$ 8,513,511
Additions	-	-	9,439	-	-	-	9,439
Balance, at June 30, 2017	\$ 420,000	\$ 682,483	\$ 7,239,725	\$ 40,232	\$ 102,930	\$ 37,580	\$ 8,522,950
Accumulated amortization							
Balance, at September 30, 2016	\$ -	\$ 269,930	\$ 5,383,305	\$ 36,470	\$ 98,048	\$ 14,072	\$ 5,801,825
Amortization for the period	-	25,591	272,654	564	1,099	1,764	301,672
Balance, at June 30, 2017	\$ -	\$ 295,521	\$ 5,655,959	\$ 37,034	\$ 99,147	\$ 15,836	\$ 6,112,497
Net book value:							
At September 30, 2016	\$ 420,000	\$ 412,553	\$ 1,846,981	\$ 3,762	\$ 4,882	\$ 23,508	\$ 2,711,686
At June 30, 2017	\$ 420,000	\$ 386,962	\$ 1,583,766	\$ 3,198	\$ 3,783	\$ 21,744	\$ 2,419,453

7. Operating line of credit

The Company has 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 except for accounts receivable from one major customer. At June 30, 2017, \$NIL (September 30, 2016 - \$NIL) of the credit facility was drawn upon. 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 facility agreement and has certain reporting requirements. As at June 30, 2017 and September 30, 2016, the Company was in compliance with the financial covenants and reporting requirements.

8. Accounts payable and accrued liabilities

	June 30, 2017	September 30, 2016
Trade payables	\$ 305,908	\$ 272,669
Accrued liabilities	127,680	172,545
Salaries, employee benefits and profit sharing, based on net income/operating cash flow	293,448	303,187
	\$ 727,036	\$ 748,401

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

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(Prepared in Canadian Dollars)

(unaudited)

9. 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.

As at September 30, 2016 and June 30, 2017, there were no outstanding stock options issued.

(c) Net income per share

The weighted average number of common shares used in the calculation of net income per share is 6,283,667 (June 30, 2016 – 6,246,806).

10. General and administrative

The major components of general and administrative expenses are comprised of:

	Three Months Ended		Nine Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Salaries and employee benefits	\$ 24,444	\$ 22,508	\$ 72,965	\$ 61,216
Profit sharing	194,519	185,869	581,464	639,620
Professional and consulting fees	24,500	18,515	63,344	54,045
Other general expenses	41,637	41,591	114,727	117,398
	<u>\$ 285,100</u>	<u>\$ 268,483</u>	<u>\$ 832,500</u>	<u>\$ 872,279</u>

Vitreous Glass Inc.

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(Prepared in Canadian Dollars)

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11. Changes in non-cash working capital

	June 30, 2017	June 30, 2016
Cash provided by (used in)		
Decrease (increase) in accounts receivable	\$ (437,801)	\$ 376,816
Decrease in inventory	80,597	184,526
Decrease (increase) in prepaid expenses	20,994	(31,396)
Decrease in accounts payable and accrued liabilities	(21,365)	(118,719)
Increase (decrease) in income taxes payable/recoverable, net	11,134	(37,850)
	<u>\$ (346,441)</u>	<u>\$ 373,377</u>

12. Commitments

- (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 expiring May 31, 2022 for storage of the Company's raw material inventory.
- (c) On July 23, 2017, the Board of Directors declared a cash dividend of \$0.05 per common share to be paid on August 15, 2017 to the shareholders of record on August 1, 2017.

13. Economic dependence

During the three and nine months ended June 30, 2017 and 2016, all sales were to three customers in the fibreglass manufacturing industry. Sales to each of two customers exceed 10% of total sales as follows:

Customer	Three Months Ended		Nine Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
A	\$ 1,114,823	\$ 978,164	\$ 3,381,238	\$ 3,165,240
B	\$ 570,625	\$ 752,878	\$ 1,736,427	\$ 2,611,938

Vitreous Glass Inc.

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14. 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 condensed interim financial statements. The Company employs risk management strategies and polices 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 the Company's 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. The fair value of the operating line of credit approximate its carrying value as it bears interest at market rates. Currently, the Company is not involved in any hedging activities.

Financial instruments recorded at fair value on the balance sheet 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:

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, is 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.

Vitreous Glass Inc.

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(Prepared in Canadian Dollars)

(unaudited)

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 June 30, 2017, 87% (September 30, 2016 - 97%) of accounts receivable are due from two customers.

At each period-end, the Company assesses if there have been any impairments of accounts receivable. At June 30, 2017 and September 30, 2016, the Company had no accounts receivable past due based on customer credit terms. 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.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities as they become due. The Company manages this risk through continuously monitoring its budgeted and projected operating results and capital expenditure programs. The Company currently expects to pay its financial liabilities in the normal course of operations as they become due over the next year. The Company also has available a credit facility to manage liquidity risk (note 7). The Company is required to meet certain financial commitments as disclosed in note 12.

(e) Market risk

The Company is exposed to market risk with respect to interest rate risk and crushed glass price risk. The Company is exposed to interest rate cash flow risk when the operating line of credit is drawn on. A 1% change in interest rates would have had a negligible impact on net income for the period ended June 30, 2017.

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

For the nine months ended June 30, 2017 and 2016

(Prepared in Canadian Dollars)

(unaudited)

(f) Capital risk 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 quantitative return on capital criteria for management, but rather promotes year over year sustainable and growth in net income and cash flow. The Company defines capital as shareholders' equity plus debt.

The Company is not subject to any externally imposed capital requirements other than the covenant on its credit facility (note 7).

There have been no changes to the Company's capital management during the period.