

**VITREOUS GLASS INC. (“Company”)  
INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS  
FOR THE NINE MONTHS ENDED JUNE 30, 2018**

This *Management Discussion and Analysis – Quarterly Highlights* (“Quarterly Highlights”) is dated August 13, 2018.

This Quarterly Highlights has been prepared to provide material updates regarding the business operations, liquidity and capital resources of the Company to its most recent Annual Management Discussion & Analysis (Annual MD&A”) for the year ended September 30, 2017. This Quarterly Highlights does not provide a general update to the Annual MD&A or reflect any non-material events since December 7, 2017, the date of the Annual MD&A.

This Quarterly Highlights has been prepared in compliance with the requirements of section 2.1.1 of Form 51-102F1, in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations*. This Quarterly Highlights should be read in conjunction with the Annual MD&A, the unaudited financial statements of the Company for the nine months ended June 30, 2018 and the audited financial statements for the year ended September 30, 2017. Results are reported in Canadian dollars, unless otherwise noted. The unaudited financial statements of the Company for the nine months ended June 30, 2018 have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board IASB). Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Advisory Regarding Forward Looking Statements**

This Quarterly Highlights contains forward looking statements. Forward looking statements are based upon current expectations and assumptions that involve a number of risks and uncertainties, certain of which are beyond the Company's control and could cause actual events or results to differ materially from those reflected in the Quarterly Highlights. Forward looking statements are based upon the estimates and opinions of the Company's management at the time the statements were made.

Readers of this Quarterly Highlights are strongly cautioned that any statements relating to the future business prospects of the Company (and therefore its ability to meet its financial obligations, and potentially continue to pay dividends) are entirely subject to the continuation of satisfactory business conditions. These include, but are not limited to, availability of waste glass for processing, demand for fiberglass building insulation by the consumer, willingness and ability of the Company's customers to continue to use waste glass as part of their raw material, availability of hauling product to and from the Company's plant, adequate margins to cover the Company's costs, and the financial health of the Company's customers.

In particular, forward looking statements and information include assumptions that (i) there will be continuing market demand for fiberglass insulation; (ii) the Company's customers will continue to operate their Alberta plants at a level where historical levels of demand for glass are present; and (iii) glass supply and transportation will continue to be available on an economically viable basis. Management believes that the Company has sufficient cash and available credit facilities to meet its obligations as they fall due, and anticipates no change in the ability to meet such obligations on an ongoing basis.

The reader is cautioned that historical results are not necessarily indicative of future performance. The forward looking statements are made as of the date of this Quarterly Highlights and the Company does not undertake any obligation to update publicly or revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

**Overview of Operations**

Vitreous operates a waste glass processing plant at Airdrie, Alberta. The plant gathers post-consumer waste glass from Alberta and elsewhere, crushes it, removes contaminants, and sells the final product to three manufacturers of fiberglass building insulation for use as a raw material in their production facilities in Alberta.

All production from the Company's Alberta glass plant is sold to two large customers and one smaller one in the fiberglass manufacturing industry in Alberta, which is heavily dependent on housing starts in Western Canada and the Northwest United States.

Inventory is maintained at levels that are dictated largely by available supply and customer demand. The Company is subject to unpredictable variations in demand for its product and in supply of raw glass. The Company is required to manage an appropriate balance between supply and demand while maintaining an appropriate level of inventory of raw glass on hand.

Revenue is dependent upon the quantity of Vitreous product purchased by its customers. Customer demand is in turn driven by demand for fiberglass building insulation that is affected by seasonal variations in the building industry, cyclical variations in the building industry and unexpected events including events of a nature that can cause unexpected increases or decreases in building activity. The Company ships to its customers based on their day-to-day consumption.

On the supply side the Company generally must accept glass as it becomes available from one major supplier, and two other suppliers of modest scale, all three of which involve a different cost, including hauling. The Company makes every effort not to interrupt supply. Interruptions in acceptance by the Company of ongoing supply cause operational challenges for the Company's suppliers that have resulted in certain former suppliers severing their relationship with the Company in the past.

For the past several quarters, demand for product has been exceeding the available supply of raw glass. Accordingly the Company has limited its sales to levels determined by its supply of raw glass. This limit will remain in effect until demand for product is equal to or exceeded by the available supply of raw glass on an annualized basis. The Company continues to seek additional sources of raw glass.

There are indications in the North American market that there has been a trend of decline in the market share of glass containers versus other beverage containers. There is a risk that the volume of glass beverage containers sold may decline which would result in a decline in the available supply of raw glass. Furthermore, the return of recyclable glass beverage containers to depots is erratic in quantity and timing. The Company is not able to forecast the volumes of raw glass that may be available in the future.

The Company continues to monitor the balance between supply and demand.

### **Financial Performance and Financial Condition**

The Company earned net income of \$435,950 (\$0.07 per share) on sales of \$1,960,348 in the three months ended June 30, 2018, compared to \$489,020 (\$0.08 per share) on sales of \$2,060,873 in the same three months of the prior year.

The 4.9% decrease in sales was due to a 8.1% reduction in volume sold in the current quarter compared to the same quarter of the prior year offset by a 3.5% increase in the average selling price per unit sold.

The 10.9% decrease in net income in the current quarter compared to the same quarter of the prior year is primarily due to the decrease in sales combined with a small increase in cost of sales per unit sold, due to a higher cost of raw glass consumed in the current quarter compared to the same quarter of the prior year.

The Company earned net income of \$1,522,414 (\$0.24 per share) on sales of \$6,292,094 in the nine months ended June 30, 2018, compared to \$1,461,655 (\$0.23 per share) on sales of \$6,170,192 in the same nine months of the prior year.

The 2.0% increase in sales was due to a 3.0% increase in the average selling price per unit sold offset by a 1.0% decrease in the volume of product sold in the current nine months compared to the same period of the prior year.

The 4.2% increase in net income in the current nine months compared to the same period of the prior year is due to an increase in sales combined with an increase in gross margin arising from a lower cost of raw glass consumed in the current nine months compared to the same period of the prior year.

During the periods ended June 30, 2018 and 2017, all sales were to three customers in the fiberglass insulation manufacturing industry, of which two customers exceeded 10% of total sales. Sales to these two customers totaled \$1,739,729 for the three months ended June 30, 2018 (2017 - \$1,826,351). Sales to these two customers totaled \$5,675,988 for the nine months ended June 30, 2018 (2017 - \$5,538,664). As at June 30, 2018 92% (September 30, 2017 - 96%) of accounts receivable are due from those two customers.

For the nine months ended June 30, 2018, the Company changed its classification of certain charges that have previously been recorded as a reduction to cost of sales. These charges to customers were initiated a number of years ago and, at time of introduction, were regarded as surcharges for the recovery of specific increased glass costs, of uncertain duration, due to changes in the structure of the Company's supply arrangements. Commencing in the current fiscal year ending September 30, 2018, these cost recovery surcharges have now been reclassified out of cost of sales and into sales, reflecting the Company's view that the changes in the structure of supply arrangements are permanent and therefore the recovery of the related charges is more accurately included in recurring sales revenue. Prior year sales and cost of sales amounts have been reclassified to provide a presentation consistent with the current period's presentation of sales and cost of sales. This reclassification does not affect the gross margin or the net income of the Company. For the three months ended June 30, 2017, sales were reclassified from \$1,898,734 to \$2,060,873 and cost of sales were reclassified from \$840,394 to \$1,002,533. For the nine months ended June 30, 2017, sales were reclassified from \$5,692,287 to \$6,170,192 and cost of sales were reclassified from \$2,548,437 to \$3,026,342.

### **Liquidity and capital resources**

The Company continues to carry an available revolving demand operating line of credit in an authorized amount of \$750,000 bearing interest at prime plus 0.9% per annum, secured by a general security agreement covering all property of the Company except for accounts receivable from one major customer. This line of credit is to be used to finance any short term operating cash requirements. The Company did not draw upon its operating credit during the nine months ending June 30, 2018, and no balance was outstanding as at September 30, 2017 (\$Nil as at June 30, 2017 and September 30, 2016).

The Company's debt at June 30, 2018 comprised normal trade payables, accrued liabilities, and income taxes payable. Assuming that there is continuing market demand for fiberglass insulation, assuming that its customers continue to operate their Alberta plants at a level where sufficient levels of demand for glass are present, and assuming that glass supply and transportation continue to be available on an economically viable basis, management believes that Vitreous will generate sufficient cash flows from operations and has available credit facilities to meet its obligations as they fall due, and anticipates no change in the ability to meet such obligations on an ongoing basis.

Any modest plant capital expenditures are generally financed from ongoing cash flows from operations before payment of dividends. The Company also sets aside funds on a regular basis against the possibility of a major capital replacement or upgrade. The amount of such funds set aside is \$461,221 as at June 30, 2018 (\$458,524 as at September 30, 2017; \$447,792 as at June 30, 2017). Currently there are no planned major capital replacements or upgrades.

Having reviewed a variety of alternatives over the years, the Company's Board has concluded that the optimum value for shareholders at this time is obtained by continuing to run the Company's business and to pay dividends as the results of the business allow.

Dividend amounts are primarily affected by net cash flow from operations, timing of receipts on accounts receivable, timing of payment of accounts payable, and fluctuations in inventory levels.

On July 13, 2018, the Company's Board declared a cash dividend of \$0.06 per common share to be paid on August 15, 2018 to the shareholders of record on August 1, 2018.

### **Related Party Transactions**

The Company obtained (and continues to obtain) consulting services from David Birkby, a director of the Company, at a cost of \$2,000 in the three months ended June 30, 2018 and \$6,000 for the nine months ended June 30, 2018

(\$2,000 and \$6,000 for the same periods in the prior year). These services are related to plant operations and plant management.

The Company obtained (and continues to obtain) consulting services from Timothy H. Rendell CPA, an executive director of the Company, at a cost of \$10,498 in the three months ended June 30, 2018 and \$30,498 for the nine months ended June 30, 2018 (\$10,000 and \$26,515 for the same periods in the prior year). These services are related to providing Chief Financial Officer services under a personal services contract.

### **Risk and Uncertainties**

Risk is inherent in all business activities and cannot be entirely eliminated. The risks and uncertainties described in the Annual MD&A for the year ended September 30, 2017 and the unaudited financial statements of the Company for the nine months ended June 30, 2018 are considered by management to be the most important in the context of the Company's business and are substantially unchanged as of the date of this Quarterly Highlights. Those risks and uncertainties are not inclusive of all the risks and uncertainties the Company may be subjected to and other risks may apply.