

# Vitreous Glass Inc.

Financial Statements

September 30, 2019 and 2018



**RSM Alberta LLP**

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## Independent Auditor's Report

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To the Shareholders of Vitreous Glass Inc.

### Opinion

We have audited the financial statements of Vitreous Glass Inc. (the "Company"), which comprise the statements of financial position as at September 30, 2019 and September 30, 2018, and the statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and September 30, 2018, and its financial performance and its cash flows for the years ended September 30, 2019 and September 30, 2018 in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ian Constable.

RSM Alberta LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada  
December 10, 2019

# Vitreous Glass Inc.

(Incorporated under the laws of Alberta)

## Statements of Financial Position

September 30, 2019 and 2018

(Prepared in Canadian Dollars)

	2019	2018
<b>Assets</b>		
Current assets		
Cash	\$ 874,303	\$ 1,658,363
Accounts receivable (note 4)	1,348,430	1,148,686
Inventory (note 5)	618,541	372,727
Prepaid expenses (note 6)	<u>343,673</u>	<u>399,579</u>
Total current assets	3,184,947	3,579,355
Property, plant and equipment (note 7)	<u>1,714,512</u>	<u>1,937,039</u>
Total assets	<u>\$ 4,899,459</u>	<u>\$ 5,516,394</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 893,050	\$ 831,967
Income taxes payable	<u>17,214</u>	<u>11,932</u>
Total current liabilities	910,264	843,899
Deferred income taxes (note 10(a))	<u>183,177</u>	<u>299,000</u>
Total liabilities	<u>1,093,441</u>	<u>1,142,899</u>
<b>Shareholders' Equity</b>		
Share capital (note 11)	2,902,082	2,902,082
Contributed surplus	105,522	54,099
Retained earnings	<u>798,414</u>	<u>1,417,314</u>
	<u>3,806,018</u>	<u>4,373,495</u>
	<u>\$ 4,899,459</u>	<u>\$ 5,516,394</u>
Commitments (notes 14(a) and (b))		
Subsequent event (note 14(c))		

See accompanying notes.

Approved by the Board,

(signed) "J. Patrick Cashion" \_\_\_\_\_, Director

(signed) "Timothy H. Rendell" \_\_\_\_\_, Director



**Vitreous Glass Inc.**  
**Statements of Changes in Shareholders' Equity**  
**Years Ended September 30, 2019 and 2018**  
*(Prepared in Canadian Dollars)*

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	<b>Common shares</b>	<b>Share capital stated value</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total shareholders' equity</b>
Balance - September 30, 2017	6,283,667	\$ 2,902,082	\$ 54,099	\$ 1,433,503	\$ 4,389,684
Net income and comprehensive income	-	-	-	2,120,257	2,120,257
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,136,446)</u>	<u>(2,136,446)</u>
Balance - September 30, 2018	6,283,667	2,902,082	54,099	1,417,314	4,373,495
Net income and comprehensive income	-	-	-	1,768,892	1,768,892
Stock-based compensation	-	-	51,423	-	51,423
Dividends paid (note 11(d))	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,387,792)</u>	<u>(2,387,792)</u>
Balance - September 30, 2019	<u>6,283,667</u>	<u>\$ 2,902,082</u>	<u>\$ 105,522</u>	<u>\$ 798,414</u>	<u>\$ 3,806,018</u>

See accompanying notes.

**Vitreous Glass Inc.**  
**Statements of Cash Flows**  
**Years Ended September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

	<b>2019</b>	<b>2018</b>
Cash provided by (used in):		
Operating activities		
Net income	\$ 1,768,892	\$ 2,120,257
Items not affecting cash		
Amortization	414,363	404,234
Stock-based compensation	51,423	-
Deferred income taxes (recovery)	<u>(115,823)</u>	<u>(88,000)</u>
	2,118,855	2,436,491
Changes in non-cash working capital (note 13)	<u>(375,180)</u>	<u>(82,102)</u>
Net cash provided by operating activities	<u>1,743,675</u>	<u>2,354,389</u>
Financing activity		
Dividends paid	<u>(2,387,792)</u>	<u>(2,136,446)</u>
Net cash used in financing activity	<u>(2,387,792)</u>	<u>(2,136,446)</u>
Investing activity		
Additions to property, plant and equipment	<u>(139,943)</u>	<u>(17,555)</u>
Net cash used in investing activity	<u>(139,943)</u>	<u>(17,555)</u>
Cash inflow (outflow)	(784,060)	200,388
Cash, beginning of year	<u>1,658,363</u>	<u>1,457,975</u>
Cash, end of year	<u>\$ 874,303</u>	<u>\$ 1,658,363</u>
Cash consists of:		
Cash on deposit with banks	<u>\$ 874,303</u>	<u>\$ 1,658,363</u>
Supplemental cash flow information		
Income taxes paid	<u>\$ 746,600</u>	<u>\$ 861,310</u>

Non-cash transaction:

During the year ended, parts on hand relating to the future servicing of property, plant and equipment in the amount of \$51,893 (2018 - \$NIL) was transferred out of prepaid expenses to property, plant and equipment (note 6).

See accompanying notes.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

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1. Nature of operations

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 10, 2019.

2. Basis of presentation

(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**  
**September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

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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.

**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**  
**September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

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*Repairs and maintenance replacement parts*

The Company makes significant judgment when assessing whether the classification of prepaid repairs and maintenance parts are future repairs and maintenance expense versus long-lived assets and reported as property, plant and equipment. In addition, the Company also makes significant judgment in assessing parts that have been classified as property, plant and equipment, and whether those parts are critical spare parts subject to depreciation upon purchase or capital spare parts subject to depreciation when placed in use.

*Derecognition of accounts receivable*

The Company makes judgments when assessing the criteria to derecognize accounts receivable in accordance with requirements as outlined in (note 3(e)). The Company has assessed the criteria to derecognize accounts receivable have been met.

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.

(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.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

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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.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in the statements of comprehensive income.

*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 statements of comprehensive income in the period incurred.

Costs of day-to-day servicing of property, plant and equipment are recognized in the statements of comprehensive 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
Moving equipment	5 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.

Parts on hand used for capital replacement are amortized on a straight-line basis over the estimated useful life when placed in use.

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 statements of comprehensive income.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

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For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating unit's). The recoverable amount is based on the higher of an asset or cash generating unit's 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.

(e) Financial instruments

Financial instruments are measured at fair value on initial recognition, which is typically the transaction price unless a significant financing component is present. Subsequent measurement is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income". The classification of financial assets is determined by their characteristics and their context in the Company's business model.

The Company classifies financial assets and liabilities as follows:

- *Amortized cost:* Cash, accounts receivable and accounts payable and accrued liabilities are held by the Company to collect or pay contractual cash flows and are measured at amortized cost. Financial instruments measured at amortized cost are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.
- *Fair value through profit or loss:* The Company has no financial instruments held to both collect contractual cash flows and to sell the asset, and accordingly, no financial instruments are measured at fair value through profit or loss.
- *Fair value through other comprehensive income:* The Company has no financial instruments that do not meet the criteria to be measured at amortized cost or fair value through profit or loss and, accordingly, no financial instruments are measured at fair value through other comprehensive income.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

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Impairment of financial assets

For trade receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected credit loss provision for all trade receivables. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and the cash flows that the Company expects to receive. The expected cash flows reflect all available information, including the Company's historical experience with its customers. The Company estimated the credit loss to be nominal and consequently no credit provision has been recorded through the statements of comprehensive income.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the assets have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - the Company has neither transferred substantially all the risks and rewards of the asset, or
  - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

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(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

The Company's sole source of revenue is to provide crushed glass to its customers. The Company meets its performance obligation and recognizes revenue when the customer loads the crushed glass onto its carrier and leaves the plant and collection is reasonably assured.

In determining the transaction price, the Company sells the crushed glass based upon an agreed price per ton with its customer. The agreed price does not provide its customers any significant financing component, volume discounts or other variable considerations.

(h) Stock-based compensation

The Company uses the fair value-based method of accounting for stock options issued to employees 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.

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 held at financial institutions and is recognized as it accrues in the statements of comprehensive income using the effective interest method.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

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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 and any adjustments to tax payable in respect of previous periods. Income tax expense is recognized in the statements of comprehensive 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.

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.

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 assumes 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.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

(l) Accounting standards adopted by the Company

The following accounting standards came into effect commencing in the Company's 2019 fiscal year beginning October 1, 2018.

i) Financial instruments

The Company has adopted IFRS 9 with a date of initial application of October 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairments model.

The standard contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), financial liabilities are classified either at amortized cost unless designated as FVTPL, an irrevocable election at time of recognition. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at October 1, 2018 had no impact on the measurement of financial instruments, which are summarized in the following table:

	IAS 39		IFRS 9	
	Classification	Measurement	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value	Amortized cost	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	Amortized cost	Amortized cost

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated as described above. There was no impact on the financial statements as at and for the year ended September 30, 2019.

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
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*(Prepared in Canadian Dollars)*

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Revenue from contracts with customers

IFRS 15 contains a single model that applies to contracts with customers recognizing revenue over time or at a point-in-time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized.

The Company has completed the assessment of the impact of the application of the new standard and has not identified any material impacts on the statements of financial position or comprehensive income upon initial application. Specifically, the Company has concluded that the adoption of IFRS 15 did not result in any material changes to the current amount and the timing of the recognition of revenue. There is no significant judgment within the contract that would affect the amount of and the timing when revenue would be recognized.

(m) Recent accounting pronouncements not yet adopted

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. The Company is currently assessing IFRS 16 and determining the impact of adopting this standard on the financial statements.

4. Accounts receivable

Accounts receivable consists entirely of trade accounts receivable. The Company did not incur any bad debts expense during the years ended September 30, 2019 or 2018 (note 17(c)).

**Vitreous Glass Inc.**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

*(Prepared in Canadian Dollars)*

5. Inventory

	<b>2019</b>	<b>2018</b>
Raw material	\$ 590,076	\$ 352,427
Crushed glass	<u>28,465</u>	<u>20,300</u>
	<u><u>\$ 618,541</u></u>	<u><u>\$ 372,727</u></u>

Cost of sales is comprised of:

Cost of raw glass sold	\$ 2,659,292	\$ 2,307,608
Salaries and employee benefits	1,001,547	955,556
Repair and maintenance	307,842	229,576
Other facility operating costs	<u>581,257</u>	<u>624,897</u>
	<u><u>\$ 4,549,938</u></u>	<u><u>\$ 4,117,637</u></u>

No inventory write-downs or reversals of prior write-downs were recorded during the years ended September 30, 2019 or 2018.

6. Prepaid expenses

	<b>2019</b>	<b>2018</b>
Prepaid expenses	\$ 34,493	\$ 33,702
Repairs and maintenance replacement parts	<u>309,180</u>	<u>365,877</u>
	<u><u>\$ 343,673</u></u>	<u><u>\$ 399,579</u></u>

During the year ended, management has identified that certain repairs and maintenance replacement parts ("Parts on Hand") will have an expected life greater than a year, and in accordance with IAS 16 is classified as property, plant and equipment. Consequently, Parts on Hand in the amount of \$51,893 (2018 - \$NIL) has been transferred to property, plant and equipment during the period (note 7).

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7. Property, plant and equipment

	Land	Building	Plant and Equipment	Moving Equipment	Furniture and Fixtures	Computer Equipment and Software	Leasehold Improvements	Parts on Hand (note 6)	Total
<b>Cost</b>									
Balance, at									
September 30, 2017	\$ 420,000	\$ 682,483	\$ 7,244,671	\$ -	\$ 40,232	\$ 102,930	\$ 37,580	\$ -	\$ 8,527,896
Additions	<u>-</u>	<u>12,272</u>	<u>-</u>	<u>-</u>	<u>1,445</u>	<u>3,838</u>	<u>-</u>	<u>-</u>	<u>17,555</u>
Balance, at									
September 30, 2018	420,000	694,755	7,244,671	-	41,677	106,768	37,580	-	8,545,451
Additions	<u>-</u>	<u>-</u>	<u>37,293</u>	<u>102,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,893</u>	<u>191,836</u>
Balance, at									
September 30, 2019	<u>\$ 420,000</u>	<u>\$ 694,755</u>	<u>\$ 7,281,964</u>	<u>\$ 102,650</u>	<u>\$ 41,677</u>	<u>\$ 106,768</u>	<u>\$ 37,580</u>	<u>\$ 51,893</u>	<u>\$ 8,737,287</u>
<b>Accumulated amortization</b>									
Balance, at									
September 30, 2017	\$ -	\$ 304,054	\$ 5,745,559	\$ -	\$ 37,222	\$ 99,513	\$ 17,830	\$ -	\$ 6,204,178
Amortization	<u>-</u>	<u>34,431</u>	<u>362,254</u>	<u>-</u>	<u>746</u>	<u>2,685</u>	<u>4,118</u>	<u>-</u>	<u>404,234</u>
Balance, at									
September 30, 2018	-	338,485	6,107,813	-	37,968	102,198	21,948	-	6,608,412
Amortization	<u>-</u>	<u>34,738</u>	<u>364,404</u>	<u>8,265</u>	<u>742</u>	<u>2,456</u>	<u>3,758</u>	<u>-</u>	<u>414,363</u>
Balance, at									
September 30, 2019	<u>\$ -</u>	<u>\$ 373,223</u>	<u>\$ 6,472,217</u>	<u>\$ 8,265</u>	<u>\$ 38,710</u>	<u>\$ 104,654</u>	<u>\$ 25,706</u>	<u>\$ -</u>	<u>\$ 7,022,775</u>
<b>Net book value</b>									
At September 30, 2018	<u>\$ 420,000</u>	<u>\$ 356,270</u>	<u>\$ 1,136,858</u>	<u>\$ -</u>	<u>\$ 3,709</u>	<u>\$ 4,570</u>	<u>\$ 15,632</u>	<u>\$ -</u>	<u>\$ 1,937,039</u>
At September 30, 2019	<u>\$ 420,000</u>	<u>\$ 321,532</u>	<u>\$ 809,747</u>	<u>\$ 94,385</u>	<u>\$ 2,967</u>	<u>\$ 2,114</u>	<u>\$ 11,874</u>	<u>\$ 51,893</u>	<u>\$ 1,714,512</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, except for accounts receivable from one major customer, 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 September 30, 2019 and 2018, \$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, 2019 and 2018, the Company was in compliance with the financial covenant and reporting requirements.

9. Accounts payable and accrued liabilities

	<b>2019</b>	<b>2018</b>
Trade	\$ 295,716	\$ 262,046
Accrued liabilities	265,927	184,905
Salaries and employee benefits and profit sharing based on net income/operating cash flows	<u>331,407</u>	<u>385,016</u>
	<u>\$ 893,050</u>	<u>\$ 831,967</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 (2018 - \$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 26.75% (2018 - 27.0%) to income before income taxes as follows:

	<b>2019</b>	<b>2018</b>
Expected current income tax expense	\$ 643,228	\$ 786,101
Increase (decrease) resulting from:		
Non-deductible expenses	4,066	5,127
Stock-based compensation expense	13,756	-
Effect in change in reduction of provincial income tax rate	<u>(24,991)</u>	<u>-</u>
Actual income tax expense	<u>\$ 636,059</u>	<u>\$ 791,228</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.

As at September 30, 2018 there were no outstanding stock options issued. On November 12, 2018, the Company granted 100,000 stock options to a director which vested immediately and expire in 5 years from the date of grant. The stock options are exercisable into common shares at \$3.54 per stock option granted.

The fair value of stock options granted during the year of \$51,423 (2018 - \$NIL) was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Share price (\$/share)	\$3.54
Exercise price (\$/share)	\$3.54
Expected life (years)	5
Risk-free interest rate (%)	2.39%
Expected volatility (%)	135%
Expected dividends (\$/share)	\$0.34

A forfeiture rate of NIL% was used when calculating the stock-based compensation expense as the options vested immediately.

A summary of the status of the Company's stock option plan as at September 30, 2019 and 2018 is as follows:

	<b>2019</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of year	-	\$ -
Granted	100,000	3.54
Outstanding, end of year	<u>100,000</u>	<u>\$ 3.54</u>
Exercisable, end of year	<u>100,000</u>	<u>\$ 3.54</u>

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100,000 stock options outstanding and exercisable at September 30, 2019 are exercisable on or before November 12, 2023.

(c) Earnings per share

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

	<b>2019</b>	<b>2018</b>
Basic	<u>6,283,667</u>	<u>6,283,667</u>
Diluted	<u>6,289,768</u>	<u>6,283,667</u>

(d) Dividends paid

During the year, the Company declared and paid dividends on its common shares totalling a weighted average of \$0.38 (2018 - \$0.34) per share.

12. General and administrative expenses

General and administrative expenses are comprised of:

	<b>2019</b>	<b>2018</b>
Salaries and employee benefits and director fees	\$ 139,005	\$ 126,833
Profit sharing	717,683	829,732
Professional and consulting fees	56,109	48,627
Other general expenses	<u>171,470</u>	<u>189,109</u>
	<u>\$ 1,084,267</u>	<u>\$ 1,194,301</u>

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13. Changes in non-cash working capital

Provided by (used in)

	<b>2019</b>	<b>2018</b>
Accounts receivable	\$ (199,744)	\$ (122,722)
Inventory	(245,814)	(48,661)
Prepaid expenses	4,013	(25,158)
Accounts payable and accrued liabilities	61,083	96,521
Income taxes payable	<u>5,282</u>	<u>17,918</u>
	<u>\$ (375,180)</u>	<u>\$ (82,102)</u>

14. Commitments and subsequent event

- (a) The Company was committed to monthly payments of \$2,494 under an operating lease for a front-end loader which expired April 30, 2019. The Company purchased the front-end loader upon expiry of the lease for \$102,650.
- (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 15, 2019, the Board of Directors declared a cash dividend of \$0.03 per common share which was paid on November 15, 2019 to the shareholders of record on November 1, 2019.

15. Economic dependence

During the years ended September 30, 2019 and 2018, 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 59.6% (2018 - 53.9%) and 31.7% (2018 - 36.6%) respectively, of total sales.

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.

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

	<b>2019</b>	<b>2018</b>
Salaries and employee benefits, consulting fees and profit sharing based on operating cash flows	\$ 915,661	\$ 1,017,930
Stock-based compensation	<u>51,423</u>	<u>-</u>
	<u>\$ 967,084</u>	<u>\$ 1,017,930</u>

Of the above key management compensation of \$163,902 (2018 - \$217,833) is included in accounts payable and accrued liabilities at year-end under normal trade terms.

17. Financial instruments

(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 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, the Company's management has the responsibility to administer and monitor these risks.

(b) Fair values of financial instruments

The fair value of cash, 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.

(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, 2019, 95% (2018 - 91%) 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, 2019 and 2018, 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, which is mitigated by the Company holding cash with major Canadian financial institutions.

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

(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).

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(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, 2019.