

Vitreous Glass Inc.

Condensed Interim Financial Statements

Three and Nine Months Ended June 30, 2019

(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 21, 2019

Vitreous Glass Inc.
Condensed Interim Statement of Financial Position

(Prepared in Canadian Dollars)

(unaudited)

	June 30, 2019	September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 1,389,300	\$ 1,658,363
Accounts receivable (note 3)	551,773	1,148,686
Income taxes recoverable	23,784	-
Inventory (note 4)	494,454	372,727
Prepaid expenses (note 5)	339,825	399,579
Total current assets	2,799,136	3,579,355
Property, plant and equipment (note 6)	1,793,851	1,937,039
	\$ 4,592,987	\$ 5,516,394
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 766,562	\$ 831,967
Income taxes payable	-	11,932
	766,562	843,899
Deferred income taxes	202,000	299,000
Total liabilities	968,562	1,142,899
Shareholders' Equity		
Share capital (note 9)	2,902,082	2,902,082
Contributed surplus	105,522	54,099
Retained earnings	616,821	1,417,314
Total shareholders' equity	3,624,425	4,373,495
Total liabilities and shareholders' equity	\$ 4,592,987	\$ 5,516,394

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 Statement of Income and Comprehensive Income For the three months and nine months ended June 30, 2019 and 2018

(Prepared in Canadian Dollars)

(unaudited)

	Three months ended		Nine months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Sales	\$ 1,447,985	\$ 1,960,348	\$ 6,020,131	\$ 6,292,094
Cost of sales (note 4)	877,482	991,699	3,116,300	3,036,245
Amortization	104,873	98,228	302,065	294,684
Total cost of sales	982,355	1,089,927	3,418,365	3,330,929
Gross margin	465,630	870,421	2,601,766	2,961,165
Expenses				
General and administrative (note 10)	190,697	268,669	813,063	863,752
Stock compensation expense	-	-	51,423	-
Amortization	2,695	2,533	8,085	7,266
	193,392	271,202	872,571	871,018
Income before income taxes	272,238	599,219	1,729,195	2,090,147
Income taxes - current	99,487	185,269	553,078	633,733
- deferred (recovery)	(51,000)	(22,000)	(97,000)	(66,000)
	48,487	163,269	456,078	567,733
Net income and comprehensive income	\$ 223,751	\$ 435,950	\$ 1,273,117	\$ 1,522,414
Net income per share - basic (note 9(c))	\$ 0.04	\$ 0.07	\$ 0.20	\$ 0.24
Net income per share - diluted (note 9(c))	\$ 0.04	\$ 0.07	\$ 0.20	\$ 0.24

See accompanying notes.

Vitreous Glass Inc.

Condensed Interim Statement of Changes in Shareholders' Equity

(Prepared in Canadian Dollars)

(unaudited)

	Common shares	Stated value	Contributed surplus	Retained earnings	Total shareholders' equity
Balance – September 30, 2017	6,283,667	\$ 2,902,082	\$ 54,099	\$ 1,433,503	\$ 4,389,684
Net income and comprehensive income	-	-	-	1,522,414	1,522,414
Dividends paid	-	-	-	(1,759,427)	(1,759,427)
Balance – June 30, 2018	6,283,667	2,902,082	54,099	1,196,490	4,152,671
Net income and comprehensive income	-	-	-	597,843	597,843
Dividends paid	-	-	-	(377,019)	(377,019)
Balance – September 30, 2018	6,283,667	2,902,082	54,099	1,417,314	4,373,495
Net income and comprehensive income	-	-	-	1,273,117	1,273,117
Stock-based compensation	-	-	51,423	-	51,423
Dividends paid	-	-	-	(2,073,610)	(2,073,610)
Balance – June 30, 2019	6,283,667	\$ 2,902,082	\$ 105,522	\$ 616,821	\$ 3,624,425

See accompanying notes.

Vitreous Glass Inc.

Condensed Interim Statement of Cash Flows

For the three months and nine months ended June 30, 2019 and 2018

(Prepared in Canadian Dollars)

(unaudited)

	Three months ended		Nine months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash and cash equivalents provided by (used in)				
Operating activities				
Net income	\$ 223,751	\$ 435,950	\$ 1,273,117	\$ 1,522,414
Add (deduct) items not affecting cash				
Amortization	107,568	100,761	310,150	301,950
Stock-based compensation	-	-	51,423	-
Deferred income taxes	(51,000)	(22,000)	(97,000)	(66,000)
	280,319	514,711	1,537,690	1,758,364
Changes in non-cash working capital (note 11)	323,467	115,646	381,926	(193,845)
Net cash provided by operating activities	603,786	630,357	1,919,616	1,564,519
Financing activity				
Dividends paid	(628,367)	(502,694)	(2,073,610)	(1,759,427)
Net cash used in financing activity	(628,367)	(502,694)	(2,073,610)	(1,759,427)
Investing activity				
Acquisition of property, plant and equipment	(115,069)	-	(115,069)	(2,184)
Net cash used in investing activity	(115,069)	-	(115,069)	(2,184)
Cash inflow (outflow)	(139,650)	127,663	(269,063)	(197,092)
Cash and cash equivalents, beginning of period	1,528,950	1,133,220	1,658,363	1,457,975
Cash and cash equivalents, end of period	\$ 1,389,300	\$ 1,260,883	\$ 1,389,300	\$ 1,260,883
Cash and cash equivalents consist of:				
Cash on deposit with banks	\$ 1,389,300	\$ 1,260,883	\$ 1,389,300	\$ 1,260,883
Operating line of credit	-	-	-	-
	\$ 1,389,300	\$ 1,260,883	\$ 1,389,300	\$ 1,260,883
The amounts paid for income taxes are included in cash flows from operating activities in the statement of cash flows.				
Income taxes paid	\$ 122,608	\$ 179,508	\$ 588,794	\$ 617,668

Non-cash transaction:

During the nine month period 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 5).

See accompanying notes.

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

For the nine months ended June 30, 2019 and 2018

(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 21, 2019.

2. Basis of preparation

(a) 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, 2017. 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, 2018.

(b) 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 had 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 classifications 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 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

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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:

Financial assets and liabilities	IAS 39		IFRS 9	
	Classification	Measurement	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value	FVTPL	Fair value
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 below. There was no impact on the unaudited condensed interim financial statements as at and for the nine month period ended June 30, 2019.

Financial assets and liabilities

Financial assets are initially measured at fair value and the Company classifies its financial assets at either amortized cost, FVOCI or FVTPL, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

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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 expected credit loss to be nominal and consequently no credit provision has been recorded through the statement of profit and loss.

(ii) 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 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.

Under the new standard, the Company is required to disclose information related to the disaggregation of revenues, performance obligations, significant judgements, contract balances and costs to obtain contracts.

The Company's contracts with its customers provides one performance obligation by selling crushed glass based on agreed price. The revenue is recognised at a point-in-time when the crushed glass is picked up by the customer from the plant. There is no significant judgements within the contract that would affect the amount of and the timing when revenue would be recognized.

3. Accounts receivable

Accounts receivable for the period ended June 30, 2019 and year ended September 30, 2018 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, 2019 and for the year ended September 30, 2018.

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4. Inventory and cost of sales

	June 30, 2019	September 30, 2018
Raw material	\$ 474,154	\$ 352,427
Crushed glass	20,300	20,300
	<u>\$ 494,454</u>	<u>\$ 372,727</u>

Cost of sales comprises the following costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cost of glass sold	\$ 422,047	\$ 541,549	\$ 1,668,652	\$ 1,624,165
Labour and employee benefits	217,699	234,789	743,103	718,504
Repairs and maintenance	118,295	77,453	263,239	224,090
Other facility operating costs	119,441	137,908	441,306	469,486
Total cost of sales	<u>\$ 877,482</u>	<u>\$ 991,699</u>	<u>\$ 3,116,300</u>	<u>\$ 3,036,245</u>

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

5. Prepaid expenses

	June 30, 2019	September 30, 2018
Prepaid expenses	\$ 41,874	\$ 33,702
Repairs and maintenance replacement parts	297,951	365,877
	<u>\$ 339,825</u>	<u>\$ 399,579</u>

During the nine month period 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 forms part of 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 6).

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6. Property, plant and equipment

Cost	Land	Building	Plant and Equipment	Moving Equipment	Furniture and Fixtures	Computer Equipment and Software	Leasehold Improvements	Parts on Hand (note 5)	Total
Balance, at September 30, 2018	\$ 420,000	\$ 694,755	\$ 7,244,671	\$ -	\$ 41,677	\$ 106,768	\$ 37,580	\$ -	\$ 8,545,451
Additions	-	-	12,419	102,650	-	-	-	51,893	166,962
Balance, at June 30, 2019	\$ 420,000	\$ 694,755	\$ 7,257,090	\$ 102,650	\$ 41,677	\$ 106,768	\$ 37,580	\$ 51,893	\$ 8,712,413
Accumulated amortization									
Balance, at September 30, 2018	\$ -	\$ 338,485	\$ 6,107,813	\$ -	\$ 37,968	\$ 102,198	\$ 21,948	\$ -	\$ 6,608,412
Amortization for the period	-	26,052	273,041	6,199	557	1,842	2,459	-	310,150
Balance, at June 30, 2019	\$ -	\$ 364,537	\$ 6,380,854	\$ 6,199	\$ 38,525	\$ 104,040	\$ 24,407	\$ -	\$ 6,918,562
Net book value:									
At September 30, 2018	\$ 420,000	\$ 356,270	\$ 1,136,858	\$ -	\$ 3,709	\$ 4,570	\$ 15,632	\$ -	\$ 1,937,039
At June 30, 2019	\$ 420,000	\$ 330,218	\$ 876,236	\$ 96,451	\$ 3,152	\$ 2,728	\$ 13,173	\$ 51,893	\$ 1,793,851

Vitreous Glass Inc.

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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, 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 June 30, 2019, \$NIL (September 30, 2018 - \$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, 2019 and September 30, 2018, the Company was in compliance with the financial covenants and reporting requirements.

8. Accounts payable and accrued liabilities

	June 30, 2019	Septemb er 30, 2018
Trade payables	\$ 319,455	\$ 262,046
Accrued liabilities	199,453	184,905
Salaries, employee benefits and profit sharing, based on net income/operating cash flow	247,654	385,016
	<hr/>	<hr/>
	\$ 766,562	\$ 831,967

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, 2018, there were no outstanding stock options issued. During the period, the Company granted 100,000 stock options to a director which vested immediately and expires in 5 years from the date of the grant. The stock options are exercisable into common shares at \$3.54 per stock option granted. No stock options were exercised during the period.

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The fair value of stock options granted during the period of \$51,423 (2018 - \$NIL) was estimated on the date of grant using the Black-Scholes option prices 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 fortitude rate of NIL% was used when recording stock-based compensation as options vested immediately.

The stock options expire on November 12, 2023.

(c) Net income per share

The weighted average number of common shares used in the calculation of net income per share for both basic and diluted as at June 30, 2019 and 2018 was 6,283,667.

10. General and administrative

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

	Three Months Ended		Nine Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Salaries and employee benefits	\$ 28,658	\$ 23,802	\$ 52,460	\$ 75,335
Profit sharing	94,548	174,537	522,692	597,970
Professional and consulting fees	24,500	22,498	71,576	67,332
Other general expenses	42,991	47,832	166,335	123,115
	<u>\$ 190,697</u>	<u>\$ 268,669</u>	<u>\$ 813,063</u>	<u>\$ 863,752</u>

Vitreous Glass Inc.

Notes to Condensed Interim Financial Statements

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(Prepared in Canadian Dollars)

(unaudited)

11. Changes in non-cash working capital

	June 30, 2019	June 30, 2018
Cash provided by (used in)		
Accounts receivable	\$ 596,913	\$ (125,330)
Inventory	(121,727)	(52,785)
Prepaid expenses	7,861	(2,117)
Accounts payable and accrued liabilities	(65,405)	(29,678)
Income taxes payable/recoverable, net	(35,716)	16,065
	<hr/> \$ 381,926	<hr/> \$ (193,845)

12. Commitments

- (a) The Company was committed to payments of \$2,494 under an operating lease for a front-loader which expired April 30, 2019. The Company purchased the equipment upon expiry 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 July 15, 2019, the Board of Directors declared a cash dividend of \$0.05 per common share to be paid on August 15, 2019 to the shareholders of record on August 1, 2019.

13. Economic dependence

During the periods ended June 30, 2019 and 2018, all sales were to three customers in the fibreglass manufacturing industry of which two customers exceeded 10% of total sales. Sales to these two customers comprised of 87% and NIL% respectively of total sales for the three months ended June 30, 2019 (2018- 61% and 28%, respectively). Sales to these two customers comprised of 58% and 31% respectively of total sales for nine months ended June 30, 2019 (2018, 55% and 35%, respectively).

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Notes to Condensed Interim Financial Statements

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(Prepared in Canadian Dollars)

(unaudited)

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 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 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 approximates 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 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:

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.

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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, 2019, 87% (September 30, 2018 - 91%) of accounts receivable are due from two customers.

At each period-end, the Company assesses if there have been any impairments of its accounts receivable. At June 30, 2019 and September 30, 2018, the Company had no accounts receivable past due based on customer credit terms. There was no impairment provision as discussed in note 2(b)(i).

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. 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 no impact on net income for the period ended June 30, 2019.

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(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.

15. Comparative figures

Comparative figures relating to a portion of its amortization expenses has been reclassified out of expenses to cost of sales in the amount of \$98,228 for the three months ending June 30, 2018 and \$294,684 for the nine months ending June 30, 2018 to reflect amortization of the building, plant and equipment associated with the processing of the finished inventory. As a result of this reclassification, there was no impact on income before taxes.