

**VITREOUS GLASS INC.**  
**TWELVE MONTHS ENDED SEPTEMBER 30, 2020**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

This Management Discussion and Analysis (“MD&A”) is dated December 9, 2020.

The following is management's discussion and analysis of the business and financial results of Vitreous Glass Inc. (“Vitreous” or the “Company”) for the three months and for the year ended September 30, 2020. This MD&A should be read in conjunction with the audited financial statements of the Company for the year ended September 30, 2020. The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements and additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Results are reported in Canadian dollars unless otherwise noted.

**Advisory Regarding Forward Looking Statements and Information**

This MD&A contains forward looking statements and information. Forward looking statements and information 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 MD&A. Forward-looking statements and information are based upon the estimates and opinions of the Company's management at the time the statements were made.

Readers of this MD&A 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. In addition, management has made assumptions about the impacts of the COVID-19 pandemic (and duration thereof) on the operations of the Company. Based on these assumptions, which management believes to be reasonable, 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.

Particularly in light of the COVID-19 pandemic and resulting economic impacts, the reader is strongly cautioned that historical results are not necessarily indicative of future performance. The forward-looking statements are made as of the date of this MD&A 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.

## **Risk and Uncertainties, including COVID-19 pandemic**

Risk is inherent in all business activities and cannot be entirely eliminated. Except for the new risks and uncertainties arising from the COVID-19 pandemic as further discussed below, the risks and uncertainties discussed in “Business Risks” are considered by management to be the most important in the context of the Company’s business. Those risks and uncertainties are not inclusive of all the risks and uncertainties the Company may be subjected to and other risks may apply.

Since its advent in early 2020, the COVID-19 pandemic has introduced new unprecedented risks and uncertainties throughout the world, and unpredictable impacts on economic and social activities throughout the world. The full extent of the potential impacts of this pandemic are generally unknown and unknowable.

In this MD&A, the Company has endeavoured to identify specific COVID-19 pandemic related risks that the Company faces, the actions the Company has taken to mitigate these risks to the greatest extent possible, the potential impacts that these risks and actions may have on the Company’s ability to conduct its business and on its financial performance and financial condition. See sections ‘COVID-19 pandemic: impact on operations’, ‘COVID-19 pandemic: impact on financial performance and financial condition’ and ‘COVID-19 pandemic: impact on liquidity and financial resources.’

### **The Company**

Vitreous operates a waste glass processing plant at Airdrie, Alberta. The plant gathers post-consumer waste glass from Alberta and elsewhere in western Canada, 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.

#### **COVID-19 pandemic: impact on operations.**

The COVID-19 pandemic, commencing in the month of March 2020, has introduced new risks of disruption to the Company’s day to day operations. Beginning in March 2020, the Company has taken specific actions to mitigate these risks.

In the year ended September 30, 2020 COVID-19 has impacted the operations of the Company as follows:

#### **(a) Risk of disruption of day to day operations**

The Company has modified how it conducts its business activities to be in accordance with all relevant rulings and directives from the Alberta Provincial Health Authority. The Company intends to continue managing its operations in compliance with any and all such rulings and directives.

All management and office staff are working remotely to the greatest extent possible, and conducting virtual meetings.

All plant workers are scheduled in manners to minimize close contact in every shift. Sanitization of all work stations takes place between each shift.

Deliveries of incoming supply of waste glass from locations in Alberta, British Columbia and Saskatchewan and outbound loading of product being trucked to customers are managed so that interaction of personnel are conducted in accordance with prevailing health and safety rulings and directives.

These actions have not had any significant impact on the Company's cost of operations to September 30, 2020. However, if these actions are required to be maintained over an extended period, or more stringent actions are required, operating conditions and operating costs are likely to be adversely impacted, and possibly to a significant degree.

There is a risk that, in the future, this pandemic or others like it may cause government mandated lockdowns whereby no staff or plant workers are able or permitted to come to work on site, or truck transportation of incoming raw material and outgoing product to customers are reduced or suspended. In such events, the Company may be required to suspend plant operations indefinitely. (See additional comments on COVID-19 pandemic impacts in sections below).

**(b) Risk of disruption in supply chain**

For the month of April 2020, the onset of the pandemic caused a significant reduction in the incoming supply of waste glass which is the raw material required for production of product for sale. Specifically, the total number of short tons received in April 2020 were at 56.5% of the monthly average of the six months ended March 31, 2020, and 49.4% of the total received in the same month of the prior year.

The Company issued a press release dated April 3, 2020 stating that the Company expected it would suspend operations indefinitely on or before May 31, 2020. The Company had advised its three customers that it was experiencing a significant reduction on the level of incoming waste glass due to interruptions in the recycling processes caused by the COVID-19 pandemic.

On May 7, 2020 the Company released a further press release to advise that actual levels of incoming supply of waste glass in late April and early May have been at levels higher than previously anticipated. It further advised that, provided this level of supply continues on an ongoing basis, the Company considers it unlikely that it will have to suspend operations due to lack of supply.

After experiencing low levels of incoming supply of waste glass in the month of April, the levels for May and June 2020 were comparable to those experienced in the six months prior to the onset of the COVID-19 pandemic. For the three months ended June 30, 2020, the total number of short tons received were 80% of the total for the same quarter of the prior year, due to the COVID 19 impact on the month of April 2020. In the three months ended September 30 2020, the total number of short tons of waste glass received was essentially the same as the total received in the same quarter of the prior year

As noted below in "Inventory and Supply", the volume of waste glass entering the recycling stream is unpredictable and not susceptible to forecast. The COVID-19 pandemic has caused increased volatility and instability in the flow of recycled glass in our market area. The Company's ability to continue operations and to deliver product to customers is dependent upon the volume of incoming supply of waste glass.

**(c) Risk of disruption in demand for product by customers**

To date, the COVID-19 pandemic has had no impact on our three customers' demand for our product, which in turn is heavily dependent on housing starts in Western Canada and Northwest United States as discussed in "Business Risks". There is a risk that COVID-19 pandemic and the general economic impacts caused by it could adversely affect housing starts and/or the ability of our three customers to maintain their historic levels of demand for our product. Any significant and/or sustained reduction in either the incoming supply of waste glass or customer demand for the Company's product would have significant adverse impact on the earnings and distributable cash arising from operations.

As discussed in "Business Risks" and "Comments on selected quarterly information", one major customer suspended its plant operations for approximately three months during the third quarter of the Company's fiscal year in both 2020 and 2019. This action by our customer was not COVID-19 related.

**(d) Other COVID-19 related risks of disruption in operations**

Management continues to monitor and assess any additional risks to disruption of operations arising from COVID-19. See also 'COVID-19 pandemic: Impact on financial condition and financial performance' and 'COVID-19 pandemic: Impact on Liquidity and capital resources'.

**Sales**

Sales for the three months ended September 30, 2020 increased by 15.4% (\$381,488) from the same three months of the preceding fiscal year due to a 26.4% increase in volume of product sold offset by an 8.7% decrease in the average product selling price. The decrease in average product selling price was primarily due to the termination of a temporary surcharge paid in the three months ended September 30, 2019 by some customers on a temporary additional source of raw glass that was purchased at a higher than usual cost. This arrangement terminated effective September 1, 2019.

Sales for the year ended September 30, 2020 increased by 10.1% (\$856,617) from the preceding fiscal year due to a 11.0% increase in volume of product sold, offset by a decrease in average product selling price of 0.9%. The small decrease in average product selling price was due in part to a temporary surcharge paid in the prior year by some customers on a temporary incremental additional source of raw glass that was purchased at a higher than usual cost. This arrangement terminated effective September 1, 2019.

During the periods ended September 30, 2020 and 2019, 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 comprised 58.9% and 35.6% respectively of total sales for the three months ended September 30, 2020 (2019 – 63.1% and 34.1% respectively). Sales to each of these two customers comprised 64.7% and 28.7% respectively of total sales for the year ended September 30, 2020 (2019 – 59.6 and 31.7% respectively). As at September 30, 2020, 88.7% (September 30, 2019 – 95.3%) of accounts receivable are due from those two customers.

Fluctuations in customer demand for the Company's product and the supply of raw glass are discussed under "Business Risks".

### **Cost of sales, not including depreciation**

For the year ended September 30, 2020, specific salaries, benefits and profit-sharing expenses in the amount of \$285,262 previously reported as labour costs and benefits in cost of sales are no longer included in cost of sales and are included in general and administrative expenses due to the promotion in the current year of the Plant Manager to the position of Vice President, Chief Operating Officer, and other minor adjustments. In prior years the profit-sharing amount paid to the Plant Manager was included in cost of sales.

Cost of sales, not including depreciation, as a percentage of sales revenue for the three months ended September 30, 2020 decreased by 12.9 percentage points to 44.8% for the current fiscal year from 57.7% for the same period of the preceding fiscal year. This decrease in cost of sales as a percentage of sales revenue is due to significantly lower average cost per unit of raw glass consumed in the three months ended September 30, 2020 compared to the same period of the prior year, and due to decreased labour costs arising from no longer including profit share in cost of sales, as discussed above. These decreases are offset by increased repairs and maintenance costs and facility costs. The higher average cost of glass consumed in the three months ended September 30, 2019 was primarily due to a temporary surcharge paid on a temporary additional source of raw glass that was purchased at a higher than usual cost. This arrangement terminated effective September 1, 2019.

Cost of sales, not including depreciation, as a percentage of sales revenue for the year ended September 30, 2020 decreased by 4.6 percentage points to 48.9% for the current fiscal year from 53.5% for the preceding fiscal year. The average cost per unit of raw glass consumed in the current year was essentially the same as the average for the prior year. Likewise, the absolute amount of repairs and maintenance costs and facility costs remained essentially the same in the current year as in the prior year. However, the combined effect of (i) decreased labour costs arising from no longer including profit share in cost of sales, as discussed above, and (ii) as discussed above under "Sales", the volume of product processed and sold in the current year increased by 11.0% compared to the prior year, result in a 4.6 percentage point reduction in the ratio of cost of sales, not including depreciation, as a percentage of sales revenue. If the profit share amount had remained in cost of sales in the current year, the reduction in ratio of cost of sales, not including depreciation, as a percentage of sales revenue would have been 1.8%, all due to the increase in volume.

### **General and administrative expenses**

See discussion above in "Cost of Sales, not including depreciation" regarding the reclassification of certain expenses in 2020, and reclassification of prior year figures for comparative purposes.

General and administrative expenses for the three months ended September 30, 2020 increased by 69.6% (\$188,657) from the same period of the preceding fiscal year primarily due to (i) the incentive-based nature of compensation for the Chief Executive Officer which increased by 43.9% (\$85,642). This incentive-based compensation is primarily determined by the gross margin amount before depreciation, which increased by 50.4% in the three months ended September 30, 2020 compared to the same period of the preceding fiscal year, and (ii) the inclusion of profit sharing in the amount of \$71,251 for the Vice President, Chief Operating Officer that was previously reported in cost of sales as discussed above in "Cost of sales , not including depreciation".

General and administrative expenses for the year ended September 30, 2020 increased by 35.0% (\$379,340) from the same period of the preceding fiscal year primarily due to (i) the incentive-based nature of compensation for the Chief Executive Officer which increased by 16.1% (115,292). This incentive-based compensation is primarily determined by the gross margin amount before depreciation, which increased by 21.1% in the year ended September 30, 2020 compared to the preceding fiscal year, and (ii) the inclusion of profit sharing in the amount of \$205,542 for the Vice President, Chief Operating Officer that was previously reported in cost of sales as discussed above in “Cost of sales, not including depreciation”).

### **COVID-19 pandemic: impact on financial performance and financial condition**

The COVID-19 pandemic has not caused any significant impact on financial results for the year ended September 30, 2020 other than a reduction in available supply of raw glass in the month of April 2020 as discussed in paragraph (b) of “Risk of disruption in supply chain under ‘COVID-19 pandemic: impact on operations”.

The extent of any possible impact on financial results for the coming months and years is not determinable, however management expects that financial performance and financial condition may become less predictable and more volatile including unpredictable variations in earnings and distributable cash arising from operations. See “Risk and Uncertainties, including COVID-19 pandemic”.

### **Federal Government CEWS assistance arising from COVID-19**

In March 2020, the Government of Canada introduced the Canadian Emergency Wage Subsidy (CEWS) program to assist employers in meeting payroll costs in the event that employer revenues were adversely affected by impacts arising from COVID-19 subject to terms and conditions regarding eligibility and calculation of claimable amounts. In the year ended September 30, 2020, the Company qualified for and received grant payments under the CEWS program totaling \$114,582 (\$nil for the year ended September 30, 2019).

All amounts received under the CEWS program have been applied to reduce wage expenses in the year ended September 30, 2020 as follows:

Reduction in plant wages	\$85,516
Reduction in general & administrative expense	<u>29,066</u>
Total	<u>\$114,582</u>

### **Accounts receivable**

Accounts receivable at September 30, 2020 were consistent with sales in the period leading up to the end of the fiscal year. All accounts receivable as at September 30, 2020 are considered collectible.

### **Inventory and supply**

Inventory is maintained at levels that are dictated largely by available supply and customer demand as discussed under “Business Risks”.

Inventory on hand as at September 30, 2020 comprises raw glass on hand, a modest amount of finished crushed glass on hand, and spare parts on hand as required to ensure timely repairs to plant equipment to minimize the risk of interruptions in production due to breakdowns.

The total carrying value of this inventory as at September 30, 2020 decreased slightly by 2.4% from the total carrying value as at the end of the prior year. This decrease was due to a 6.5% (\$38,207) reduction in the carrying value of raw glass supplies offset by a 5.8% (\$22,414) increase in the carrying value of spare parts.

The 6.5% reduction in the carrying value of raw glass was primarily due to a reduction on quantity of raw glass on hand as at September 30, 2020 compared to the end of the prior year.

As discussed under “Business Risks”, the Company accepts deliveries of raw glass from its major supplier and other suppliers as it becomes available. See comments under “Business Risks”.

### **Purchase of property, plant and equipment**

In the three months ended September 30, 2020, the Company spent \$nil on additions to property, plant and equipment compared to \$24,874 in the same period of the prior fiscal year (comprising \$24,874 on plant equipment).

In the year September 30, 2020, additions to property, plant and equipment totaled \$67,351 compared to \$191,836 in the prior fiscal year. Additions in the current year comprise \$53,100 on the plant building, \$10,500 on plant equipment, and \$3,751 on capital spares compared to \$191,836 on additions to property, plant and equipment in the prior fiscal year (comprising \$102,650 for a front-end loader, \$37,293 for additions to plant equipment and \$51,893 for capital spares).

### **Cash and bank operating lines of credit**

In the month of September 2020, the Company cancelled its operating line of credit because management concluded it was no longer required. The Company carries no operating line of credit as at September 30, 2020. Prior to cancellation, the Company carried an available operating line of credit in an authorized amount of \$750,000, secured by a general security agreement covering all property of the Company except for accounts receivable from one major customer. This line of credit was used to finance short term operating cash requirements. In the current year ended September 30, 2020 the Company did not use this line of credit. In the prior year the Company used this credit facility on four occasions. In each instance, the usage was for short terms ranging from overnight to several business days, in amounts ranging from \$10,000 to \$100,000. No balance was outstanding as at September 30, 2019.

### **Commitments**

The Company is committed to monthly payments of \$2,000 under a property lease agreement expiring May 31, 2022 for storage of the Company’s raw material inventory.

Effective October 1, 2019, the beginning of the current fiscal year, the Company adopted a new accounting policy in compliance with prevailing IFRS that resulted in this lease commitment being capitalized as a lease liability along with a corresponding right of use asset. This newly adopted accounting policy

recognizes the financial asset and financial liability arising from the lease commitment. However, adoption of this new accounting policy does not change the rights or obligations and commitments of the Company under the property lease agreement, and it does not change the cash flow or operations of the Company.

### **Business Risks**

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.

As more fully discussed under "Comments on selected quarterly information", during both years ended September 30, 2020 and 2019 one major customer suspended operations for an approximately three-month period in each year during which time this customer suspended placing any orders or shipments of product from the Company. As a result, sales to this customer were \$59,605 for the three months ended June 30, 2020 and \$nil in the same three months of the prior year. The customer provided advance notification to the Company that these suspensions of operations were temporary, and that normal operations would resume in due course, which resumption did occur approximately three months later in each year. The customer has advised the Company that, in attempt to achieve a lower total production cost per unit for the same total production quantity, the customer may increase their production quantity (and their orders of product from the Company) for some periods, and suspend production for some periods from time to time. In this event, the Company may experience greater volatility in quantity of product sold to this major customer.

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. The loss of any of the Company's current suppliers could have an adverse impact on the operations of the Company.

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. Notwithstanding these indications, the volume of raw glass available to the Company has increased slightly in the current year ended September 30, 2020 and prior year ended September 30, 2019, after having declined slightly in the year ended September 30, 2018 compared to the 2017 fiscal year. Some of the increased supply of raw glass has originated in geographic areas more distant from Airdrie AB which has required increased hauling costs, and contributes to a higher average cost of raw glass.

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. See comments under "Inventory and Supply".

### **Liquidity and financial resources**

The Company's current liabilities at September 30, 2020 comprised normal trade payables, accrued liabilities, income taxes payable and the current portion of a capitalized lease liability. 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 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 to cover the possibility of a major capital replacement or upgrade. The amount of such funds set aside is \$450,000 as at September 30, 2020 (\$361,992 as at September 30, 2019).

### **COVID-19 pandemic: impact on liquidity and financial resources**

As discussed in "The COVID-19 pandemic: impact on financial performance and financial condition", the COVID-19 pandemic has increased the risk of reduced earnings and reduced net cash arising from operations.

In response to this increased risk, the Company has taken steps to augment its liquidity and its ability to cover fixed costs in the event of any suspension of operations, including any possible suspension arising for COVID-19 related reasons. Based upon the reduction in incoming supply of raw glass experienced in April 2020, and the enhanced degree of uncertainty arising from this event (as discussed in "COVID-19 pandemic: impact on operations"), the directors decided in April to suspend the May 15 2020 dividend, and thus enhance the liquidity of the Company.

Cash flow arising from operations in the six months ending September 30, 2020 were sufficient to provide payment of a dividend on August 15, 2020 in the amount of \$0.15 (cash distribution of \$942,550) while also providing cash on hand as at September 30, 2020 of \$1,523,319.

On October 15, 2020 the Directors approved the payment of a dividend on November 13, 2020 in the amount of \$0.17 for a total cash distribution of \$1,068,223. After payment of this dividend, the total cash on hand as of December 9, 2020 is \$2,368,301. Management estimates that this level of cash reserve provides adequate liquidity to sustain the Company in the event of any possible suspension of operations of up to 12 months.

## Share capital

As at September 30, 2020 and December 9, 2020, there were 6,283,667 common shares (“Common Shares”) outstanding (6,283,667 at September 30, 2019).

Effective November 12, 2018, the Board of Directors granted to Meredith Cashion, a director of the Company, an option to acquire 100,000 Common Shares at an option price of \$3.54 per share expiring on November 11, 2023. This option for 100,000 Common Shares remains outstanding as at September 30, 2020 and as at December 9, 2020.

Effective March 25, 2020, the Board of Directors granted to Darcy Forbes, Chief Operating Officer of the Company, an option to acquire 100,000 Common Shares at an option price of \$2.75 per share expiring on March 24, 2025. This option for 100,000 Common Shares remains outstanding as at September 30, 2020 and as at December 9, 2020.

As at September 30, 2020 and as at December 9, 2020 there were options outstanding for 200,000 Common Shares (100,000 at September 30, 2019).

## Selected annual information

The following charts and related comments provide selected annual information for the fiscal years 2020, 2019 and 2018.

<i><b>Year ended September 30:</b></i>	<i><b>2020</b></i>	<i><b>2019</b></i>	<i><b>2018</b></i>
Sales	\$9,361,559	\$8,504,942	\$8,627,657
Net income	\$2,254,989	\$1,768,892	\$2,120,257
Net income per share	\$0.36	\$0.28	\$0.34
Diluted net income per share	\$0.35	\$0.28	\$0.34
Total assets	\$5,505,941	\$4,899,459	\$5,516,394
Long-term financial liabilities	\$123,559	\$ 0	\$ 0
Dividends paid, per share	\$0.30	\$0.38	\$0.34

## Comments on selected annual information

The volume of product sold is dependent upon the volume of supply of raw glass available for purchase as discussed under “Inventory and Supply” and “Business Risks”.

Sales for the year ended September 30, 2020 increased by 10.1% from the preceding fiscal year due to a 11.0% increase in volume of product sold, offset by a decrease in average product selling price of 0.9% as discussed under “Sales”.

In the year ended September 30, 2019, sales decreased by 1.4% from the preceding fiscal year due to a decrease in volume of product sold of 6.7% offset by an increase in average product selling price of 5.6%,

Gross Margin before depreciation as a percentage of sales revenue for the year ended September 30, 2020 increased by 4.7 percentage points to 51.2% for the current fiscal year from 46.5% for the preceding fiscal year, as discussed under “Cost of sales, not including depreciation”.

Gross Margin before depreciation as a percentage of sales revenue for the year ended September 30, 2019 decreased by 5.8 percentage points to 46.5% for the 2019 fiscal year from 52.3% for the preceding fiscal year. This decrease is due to (a) higher average cost per unit of raw glass consumed in the year ended September 30, 2019 compared to the prior year and (b) higher costs of repairs and maintenance offset by a lesser decrease in other facility costs. The higher average cost of glass purchased included a temporary surcharge paid on a temporary additional source of raw glass that was purchased at a higher than usual cost. This arrangement terminated effective September 1, 2019. Absent the impact of this temporary additional source of glass, the cost of sales, not including amortization, as a percentage of sales revenue for the year ended September 30, 2019 would have increased by 4.2 percentage points to 51.9% for the 2019 fiscal year from 47.7% for the preceding fiscal year.

Net income for the year ended September 30, 2020 increased by 31.0% (\$547,368) primarily due to the combined factors of (a) a 10.1% (\$856,617) increase in sales as discussed under “Sales”, and (b) a 48.7% (\$196,600) decrease in total depreciation and amortization expense included in total cost of sales, as discussed below, offset by (c) a 35.0% (\$379,340) increase in general and administrative expenses as discussed under “General and administrative expenses” and (d) a 20.4% (\$129,480) increase in total income tax expense. The non-cash charge for depreciation expense included in total cost of sales declined by 48.7% in accordance with the accounting policy of depreciating the plant and equipment capital costs on a 20-year straight line basis. The Company’s plant and equipment has been operating for more than 20 years, with the result that original cost layers invested at the time of commencement of operation of the plant have become fully depreciated. The Company’s program of continuous additions and maintenance provides that the plant and equipment continue to be fully productive despite the declining net book value.

Net income for the year ended September 30, 2019 decreased by 16.6% (\$351,365) due to the combined factors of (a) a 1.4% (\$122,715) decrease in sales, (b) a 10.5% (\$432,299) increase in cost of sales not including depreciation, offset by (c) a 9.2% (\$110,029) decrease in general and administrative expenses and (d) a 19.6% (\$155,169) decrease in total income tax expense.

For a discussion of dividends paid, see below in “Shareholder value and dividends”

### **Selected quarterly information**

The following charts and related comments provide selected information for the eight most recent fiscal quarters.

<b><i>Quarter ended:</i></b>	<b><i>Sep 20</i></b>	<b><i>Jun 20</i></b>	<b><i>Mar 20</i></b>	<b><i>Dec 19</i></b>
Sales	\$2,866,298	\$1,298,960	\$2,642,089	\$2,554,212
Net income	\$882,964	\$232,070	\$551,841	\$649,387
Per share	\$0.14	\$0.04	\$0.09	\$0.10
Diluted per share	\$0.13	\$0.04	\$0.09	\$0.10

<b><i>Quarter ended:</i></b>	<b><i>Sep 19</i></b>	<b><i>Jun 19</i></b>	<b><i>Mar 19</i></b>	<b><i>Dec 18</i></b>
Sales	\$2,484,810	\$1,447,985	\$2,199,039	\$2,373,108
Net income	\$495,774	\$223,751	\$474,688	\$574,679
Per share	\$0.07	\$0.04	\$0.08	\$0.09
Diluted per share	\$0.07	\$0.04	\$0.08	\$0.09

#### **Comments on selected quarterly information**

Quarterly results vary significantly depending upon demand and supply factors beyond the control of the company as discussed under “Business Risks”.

The primary factors that determine Sales and Net income in each quarter are (i) the volume of product sold in each quarter, (ii) the average price per ton of product sold in each quarter and (iii) the cost of glass sold in each quarter. Accordingly, comments in this section will focus on variations in these three primary factors and the reasons for them. As discussed fully under “Business Risks”, the demand for product by the Company’s customers and the supply of raw glass are not subject to control by the Company, nor are they susceptible to forecast or prediction in advance by the Company. Fluctuations in customer demand for the Company’s product, and fluctuations in supply and per unit cost of raw glass cause concomitant fluctuations in the Company’s Sales, Cost of sales and Net income on a monthly, quarterly and annual basis.

Quarterly results for the three months ended September 30, 2020 compared to the same quarter for the prior year are discussed above in “Sales”, “Cost of sales, not including depreciation” and “General and administrative expenses”. Net income for the the three months ended September 30, 2020 increased by 78.1% (\$387,190) compared to the same quarter of the prior year primarily due to a 26.4% increase in volume of product sold combined with a lower average cost per unit of raw glass consumed compared to the same period of the prior year.

Financial performance of the Company in the three months ended June 30, 2020 and in the three months ended June 30, 2019 were both significantly impacted by a decision of one of the Company’s two major customers to suspend operations of their plant for approximately three months from late March to late June/early July in each year. During these two periods the customer suspended placing any orders or shipments of product from the Company. In result, sales to this customer in the three months ended June

30, 2020 were \$59,605 (2019 – nil). The customer notified the Company that these suspensions of operations were temporary, and that normal operations would resume in late June or early July each year. In keeping with those notifications, the customer resumed placing orders for product, and shipments to the customer resumed in late June / early July of each year at levels equal to or above this customer's weekly pattern in the several quarters prior to these suspensions. The customer has advised the Company that, in attempt to achieve a lower total production cost per unit for the same total production quantity, the customer may increase their production quantity (and their orders of product from the Company) for some periods, and suspend production for some periods from time to time. In this event, the Company may experience greater volatility in quantity of product sold to this customer, as discussed under "Business risks".

Sales for the three months ended June 30, 2020 decreased by 10.3% (\$149,025) due to a 12.1% decrease in the volume of product sold offset by a 2.1% increase in the average selling price per unit in the current quarter compared to the same quarter of the prior year. Net income for the three months ended June 30, 2020 increased by 3.7% (\$8,321) compared the to the same quarter of the prior year because the reduction in gross margin amount arising from less volume of product sold was essentially offset by a reduction in general & administrative expenses primarily due to CEWS grant amounts received in the current period, as discussed under "Federal Government CEWS Assistance".

Sales for the three months ended March 31, 2020 increased by 20.1% (\$443,050) due to a 16.7% increase in the volume of product sold combined with a 2.9% increase in the average selling price per unit in the current quarter compared to the same quarter of the prior year. Net income for the three months ending March 31, 2020 increased by 16.3% (\$77,153) compared to the same quarter of the prior year primarily because the significant increase in sales revenue in the current quarter was significantly offset by a 25.8% increase per unit cost of glass sold in the current quarter compared to the same quarter of the prior year.

Sales for the three months ended December 31, 2019 increased by 7.6% (\$181,104) increase in sales due to a 5.8% increase in volume sold combined with a 1.8% increase in the average selling price per unit sold in the current quarter compared to the same quarter of the prior year. Net income in the three months ended December 31, 2019 increased by 13.0% (\$74,708) compared to the same quarter of the prior year primarily because the increase in sales was offset by a 17.3% increase in the unit cost of glass in the current quarter compared to the same quarter of the prior year.

### **Critical accounting estimates**

IFRS require management to make estimates and assumptions that reported amount of assets, liabilities, revenue and expenses during the reporting periods presented. Significant estimates include the assessment of the recoverability of carrying value of the Company's inventory, property plant and equipment, and deferred income taxes. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

The Company has no off-balance sheet arrangements.

### **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 September 30, 2020 and \$8,000 for the year

ended September 30, 2020 (\$2,000 and \$8,000 for the same periods in the prior fiscal 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, a director of the Company, at a cost of \$12,659 in the three months ended September 30, 2020 and \$50,459 for the year ended September 30, 2020 (\$12,533 and \$48,109 for the same periods in the prior year). These services are related to providing Chief Financial Officer services under a personal services contract. Effective October 1, 2020 the personal services contract was replaced by an employment contract with no change in the current level of compensation or the scope of duties and responsibilities.

### **Future plans**

The Company plans to continue to manage its waste glass processing operation cautiously, and consistent with past practices.

### **Shareholder value and dividends**

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 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.

Since September 30, 2018 the Company has paid cash dividends on its Common Shares as follows:

November 13, 2020	\$0.17
August 14, 2020	\$0.15
May 15, 2020	\$0.00
February 14, 2020	\$0.12
November 15, 2019	\$0.03
August 15, 2019	\$0.05
May 15, 2019	\$0.10
February 15, 2019	\$0.13
November 15, 2018	\$0.10

The Company's ability to pay dividends is contingent on the ongoing results of operation of the business. The Company believes that quarterly dividends, if any, should reflect actual business results of the most recent completed quarter.

All dividends paid to date are "eligible" dividends when calculating the dividend tax credit for income tax purposes.