

Condensed Interim Financial Statements
Vitreous Glass Inc.
For the nine month period ended June 30, 2020 and 2019
Stated in Canadian Dollars
(unaudited)

NOTICE OF NO AUDITOR'S 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 7, 2020

Vitreous Glass Inc.

Condensed Interim Statements of Financial Position

Stated in Canadian dollars

As at:

	June 30, 2020 (unaudited)	September 30, 2019 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,152,399	\$ 874,303
Accounts receivable	636,096	1,348,430
Inventory (Note 5)	582,901	618,541
Prepaid expenses (Note 6)	404,245	343,673
Total current assets	\$ 3,775,581	\$ 3,184,947
Non-current assets		
Property, plant and equipment (Note 7)	1,748,411	1,714,512
Total non-current assets	\$ 1,748,411	1,714,512
Total assets	\$ 5,523,992	\$ 4,899,459
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 841,578	\$ 893,050
Current portion of lease liability (Note 10)	12,850	-
Income taxes payable	24,218	17,214
Total current liabilities	\$ 878,646	\$ 910,264
Non-current liabilities		
Lease liability (Note 10)	\$ 127,894	\$ -
Deferred income taxes	155,176	183,177
Total non-current liabilities	\$ 283,070	183,177
Total liabilities	\$ 1,161,716	\$ 1,093,441
Shareholders' Equity		
Share capital (Note 11)	\$ 2,902,082	\$ 2,902,082
Contributed surplus	193,898	105,522
Retained earnings	1,266,295	798,414
Total shareholders' equity	\$ 4,362,275	\$ 3,806,018
Total liabilities and shareholders' equity	\$ 5,523,992	4,899,459

Approved by the Board of Directors:

(signed) "J. Patrick Cashion"
Director

(signed) "Timothy H. Rendell"
Director

Vitreous Glass Inc.

Condensed Interim Statements of Income and Comprehensive Income

Stated in Canadian dollars
(unaudited)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Sales	\$ 1,298,960	\$ 1,447,985	\$ 6,495,261	\$ 6,020,131
Cost of sales (Note 5)	771,842	877,482	3,478,916	3,116,300
Depreciation	52,398	104,873	157,194	302,065
Total cost of sales	824,240	982,355	3,636,110	3,418,365
Gross margin	474,720	465,630	2,859,151	2,601,766
Expenses				
General and administrative (Note 12)	161,079	190,697	812,285	813,063
Stock-based compensation (Note 11(b))	-	-	88,376	51,423
Depreciation	2,277	2,695	6,828	8,085
	163,356	193,392	907,489	872,571
Income before income taxes	311,364	272,238	1,951,662	1,729,195
Income taxes				
Income taxes – current	89,294	99,487	546,363	553,078
Income taxes – deferred (recovery)	(10,000)	(51,000)	(28,000)	(97,000)
	79,294	48,487	518,363	456,078
Net income and comprehensive income	\$ 232,070	\$ 223,751	\$ 1,433,299	\$ 1,273,117
Net income per share (basic and diluted) (Note 11) Basic and diluted	\$ 0.04	\$ 0.04	\$ 0.23	\$ 0.20

The accompanying notes are an integral part of these condensed interim financial statements.

Vitreous Glass Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

Stated in Canadian dollars
(unaudited)

	Common shares #	Share capital \$	Contributed surplus \$	Retained Earnings \$	Shareholders' equity \$
Balance at 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 at June 30, 2019	6,283,667	2,902,082	105,522	616,821	3,624,425
Net Income and comprehensive income	-	-	-	495,775	495,775
Stock-based compensation	-	-	-	-	-
Dividends paid	-	-	-	(314,182)	(314,182)
Balance at September 30, 2019	6,283,667	2,902,082	105,522	798,414	3,806,018
Net Income and comprehensive income	-	-	-	1,433,299	1,433,299
Stock-based compensation			88,376		88,376
Modified retroactive adoption of new accounting standard (Note 3)	-	-	-	(22,868)	(22,868)
Dividends paid	-	-	-	(942,550)	(942,550)
Balance at June 30, 2020	6,283,667	\$2,902,082	\$193,898	\$1,266,295	\$4,362,275

The accompanying notes are an integral part of these condensed interim financial statements.

Vitreous Glass Inc.

Condensed Interim Statements of Cash Flows

Stated in Canadian dollars
(unaudited)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Cash and cash equivalents provided by (used in) the following:				
Operating activities				
Net income	\$ 232,070	\$ 223,751	\$1,433,299	\$1,273,117
Add (deduct) items not affecting cash				
Depreciation	54,675	107,568	164,022	310,150
Stock-based compensation (Note 11(b))	-	-	88,376	51,423
Deferred income taxes	(10,000)	(51,000)	(28,000)	(97,000)
Changes in non-cash working capital (Note 13)	(583,118)	323,467	642,934	381,926
Net cash provided by operating activities	859,863	603,786	2,300,631	1,919,616
Financing activities				
Recognition of lease liability (Note 10)	-	-	153,439	-
Lease payments (Note 10)	(4,307)	-	(12,695)	-
Dividends paid	-	(628,367)	(942,550)	(2,073,610)
Net cash used in financing activities	(4,307)	(628,367)	(801,806)	(2,073,610)
Investing activities				
Acquisition of property, plant and equipment	(3,750)	(115,069)	(67,351)	(115,069)
Lease right of use asset (Note 10)	-	-	(130,571)	-
Net cash used in investing activities	(3,750)	(115,069)	(197,922)	(115,069)
Cash inflow	851,806	(139,650)	1,300,904	(269,063)
Modified retroactive adoption of new accounting standard (Note 3)	-	-	(22,868)	-
Cash and cash equivalents, beginning of period	1,300,533	1,528,950	874,303	1,658,363
Cash and cash equivalents, end of period	\$2,152,339	\$1,389,300	\$2,152,339	\$1,389,300
Cash and cash equivalents consists of:				
Cash on deposit with banks	\$2,152,339	\$1,389,300	\$2,152,339	\$1,389,300
Operating line of credit	-	-	-	-
	\$2,152,339	\$1,389,300	\$2,152,339	\$1,389,300
The amounts paid for income taxes are included in the cash flows from operating activities in the statement of cash flows.				
Income taxes paid	\$ 149,011	\$ 122,608	\$ 539,359	\$ 588,794

The accompanying notes are an integral part of these condensed interim financial statements.

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019
(unaudited)

1. Description of the Business

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.

2. Basis of Preparation

These condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, and have been prepared following the same accounting policies as those used in preparing the most recent annual financial statements except for note 3. These condensed interim financial statements have been prepared on the historical cost basis, except for financial instruments which are recognized at fair value. These condensed interim financial statements do not include all the disclosures required for the preparation of annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the 2019 audited financial statements.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 7, 2020.

3. Adoption of New Accounting Standards

International Financial Reporting Standards ("IFRS") 16 Leases ("IFRS 16")

Adoption

Effective January 1, 2019, the Company adopted IFRS 16 Leases using a modified retrospective approach whereby the financial statements of prior periods presented were not restated and continue to be reported under IAS 17, as permitted by the specific transition provisions of IFRS 16. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property and equipment) and lease liabilities similarly to other financial liabilities.

The Company has one lease of property for storage of the Company's raw material inventory which expires May 21, 2022 with an option to renew for 3 consecutive 5 year terms. The Company determined its lease to be a finance lease based upon the following factors:

- There is an identified asset.
- The Company obtains all of the economic benefits of the lease.
- The Company has the right to direct the use of the asset.
- The lessor does not have any substitution rights.

As such, the Company recorded a finance lease payable at adoption of \$153,439 to reflect the present value of the remaining lease payments for the current term plus one renewal term of five years, discounted at the Company's incremental borrowing rate of 4.85% (see Note 4 and 10). On a monthly basis, the Company reduces the finance lease payable as lease payments are made and records interest expense on the outstanding balance using the incremental borrowing rate.

The incremental borrowing rate was determined evaluating several factors, including the interest rate on the Company's short term credit agreement. Given the Company's current short term credit agreement bears a borrowing rate of prime plus 0.9%, the Company determined it was the best third-party market determined incremental borrowing rate.

The Company elected to adopt the following practical expedients as permitted by IFRS 16;

- Short term leases and leases of low value assets: Exclude leases from initial recognition for which the lease term ends within twelve months of the date of initial application or lease commencement or for which were low value. These will continue to be expensed on a straight-line basis over the lease term.
- The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019.

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019
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3. Adoption of New Accounting Standards *(continued)*

The following table provides a reconciliation of the commitments as at September 30, 2019 to the Company's lease liabilities as at October 1, 2019

Disclosed commitments as at September 30, 2019	\$	64,000
Adjustment to commitment amount as at September 30, 2019 for 1 term extension		120,000
Lease liability commitments as at September 30, 2019		184,000
Discounted using the incremental borrowing rate of 4.85% at October 1, 2019		30,561
Lease liability as at October 1, 2019		\$153,439

Accounting policy

The following accounting policy applies as of October 1, 2019 following the adoption of IFRS 16. Prior to October 1, 2019, the Company continued to apply IAS 17 and related interpretations as disclosed in the audited annual financial statements as at and for the year-ended September 30, 2019, as permitted by the specific transition provisions of IFRS 16.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Finance lease payable is recognized with corresponding right-of-use asset for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

Finance lease payable is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the Finance lease payable comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Finance lease payable is subsequently measured at depreciated cost using the effective interest method. Finance lease payable is remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding finance lease payable, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related finance lease payable. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. If a right-of-use asset is subsequently leased to a third party (a "sublease") and the sublease is classified as a finance lease, the carrying value of the right-of-use asset to the extent of the sublease is derecognized. Any difference between the right-of-use asset and the lease receivable arising from the sublease is recognized in profit or loss.

Government Grants

Effective April 1, 2020, the Company adopted a new accounting policy regarding Government Grants in accordance with IAS 19.

Government grants are not recognized until there is reasonable assurance the Company will meet all attached conditions and that the grants will be received.

Government grants that have conditions requiring the Company to purchase, construct or otherwise acquire non-current assets are recognized as a reduction of the carrying value of the related asset.

Government grants intended to compensate for expenses are recognized as income over the periods necessary to match the grants with the expenses they are intended to compensate, and are offset against such expenses.

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

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(unaudited)

4. Critical Accounting Estimates and Judgments

In the application of the Company's accounting policies management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim financial statements, and the reported amounts of revenues and expenses for the periods presented. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following outlines new significant accounting judgments and estimates for the period beginning October 1, 2019.

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used.

Leases

Estimation relating to the selection of the appropriate incremental borrowing rate to be applied to lease payments.

Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the condensed interim financial statements:

Leases

Identification of whether a contract contains a lease and determination of extension or termination option within the lease contract. Extension options are included in the lease term only if management is reasonably certain the lease term will be extended.

5. Inventory

	June 30, 2020	September 30, 2019
Raw material	\$ 554,436	\$ 590,076
Crushed glass	28,465	28,465
	\$ 582,901	\$ 618,541
	June 30, 2020	September 30, 2019
Cost of sales		
Cost of raw glass sold	\$ 2,123,257	\$ 2,659,292
Plant wages and employee benefits	699,954	1,001,547
Repairs and maintenance	217,435	307,842
Other facility operating costs	438,270	581,257
	3,478,916	\$ 4,549,938

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019
(unaudited)

Inventory (continued)

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

Plant wages and benefits for the nine months ended June 30, 2020 are shown net of \$95,680 for grants received under the Federal Canadian Emergency Wage Subsidy program (year ended September 30, 2019 - \$nil)

6. Prepaid Expenses

	June 30, 2020	September 30, 2019
Prepaid expenses	\$ 67,969	\$ 34,493
Repairs and maintenance replacement parts	336,276	309,180
	\$ 404,245	\$ 343,673

Repairs and maintenance replacement parts have useful lives of less than twelve months and are expensed when put into use. In fiscal 2018, management identified that certain repairs and maintenance replacement parts ("Parts on Hand") had an expected life greater than a year, and in accordance with IAS 16 forms part of property, plant and equipment. Parts on Hand in the amount of \$NIL (2018 - \$51,893) were transferred to property, plant and equipment (note 7).

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019

(unaudited)

7. Property, plant and equipment

	Land	Building	Plant and equipment	Moving equipment	Furniture and fixtures	Computer equipment and software	Leasehold improvements	Lease – right of use (Note 3)	Parts on hand (Note 6)	Total
Cost										
Balance at September 30, 2019	\$ 420,000	\$ 694,755	\$ 7,281,964	\$ 102,650	\$ 41,677	\$ 106,768	\$ 37,580	\$ -	\$ 51,893	\$ 8,737,287
Additions	-	53,100	10,500	-	-	-	-	130,571	3,752	197,922
Balance at June 30, 2020	420,000	747,855	7,292,464	102,650	41,677	106,768	37,580	130,571	55,643	8,935,208
Accumulated depreciation										
Balance at September 30, 2019	\$ -	\$ 373,223	\$ 6,472,217	\$ 8,265	\$ 38,710	\$ 104,654	\$ 25,706	\$ -	\$ -	\$ 7,022,775
Depreciation for the period	-	27,047	106,206	12,658	445	476	2,459	14,731	-	164,022
Balance at June 30, 2020	\$ -	\$ 400,270	\$ 6,578,423	\$ 20,923	\$ 39,155	\$ 105,130	\$ 28,165	\$ 14,731	\$ -	\$ 7,186,797
Net book value:										
As at September 30, 2019	\$ 420,000	\$ 321,532	\$ 809,747	\$ 94,385	\$ 2,967	\$ 2,114	\$ 11,874	\$ -	\$ 51,893	\$ 1,714,512
As at June 30, 2020	\$ 420,000	\$ 347,585	\$ 714,041	\$ 81,727	\$ 2,522	\$ 1,638	\$ 9,415	\$ 115,840	\$ 55,643	\$ 1,748,411

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019
(unaudited)

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 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, 2020, \$NIL (September 30, 2019 - \$NIL) of the credit facility was drawn upon. Under the terms of the facility, the Company is required to meet a tangible net worth covenant of at least \$1,250,000, calculated as defined in the facility agreement and has certain reporting requirements. As at June 30, 2020 and September 30, 2019, the Company was in compliance with the financial covenants and reporting requirements.

9. Accounts payable and accrued liabilities

	June 30, 2020	September 30, 2019
Trade payables	\$ 247,506	\$ 295,716
Accrued liabilities	218,164	265,927
Salaries, employee benefits and profit sharing based on net income/operating cash flow	375,908	331,407
	\$ 841,578	\$ 893,050

10. Leases

Right of use asset

The following table illustrates the right-of-use asset balances during the period.

	Total
Cost	
Balance at October 1, 2019	\$ 130,571
Depreciation	14,731
Balance at June 30, 2020	\$ 115,840

Lease liability

The Company incurs lease payments related to its land lease for the storage of inventory. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets.

Balance, October 1, 2019	\$ 153,439
Payments on lease liability	12,695
Balance at June 30, 2020	\$ 140,744
Current portion, lease liability	\$ 12,850
Non-current, lease liability	127,894
Balance at June 30, 2020	\$ 140,744

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

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Leases (continued)

The following tables sets out a maturity analysis of the lease liability:

Maturity analysis – contractual undiscounted cash flows	June 30, 2020	October 1, 2019
Less than one year	\$ 24,000	\$ 24,000
One to five years	120,000	120,000
More than five years	22,000	40,000
Total undiscounted lease liability as at period ended	166,000	184,000
Lease liability included in the statements of financial position at period ended	\$ 140,744	\$ 153,439

The Company has recognized the following amounts in the condensed interim statements of loss and comprehensive loss:

	June 30, 2020	September 30, 2019
Interest expense on lease liability	\$ 5,305	\$ -

The Company has recognized cash outflows for leases of \$6,000 for the three months ended June 30, 2020 (2019-\$6,000); \$18,000 for the nine months ended June 30, 2020 (2019-\$18,000) in the condensed interim statements of cash flows.

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.

On November 12, 2018, the Company granted 100,000 stock options to a director which vested immediately and expires 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.

On March 25, 2020, the Company granted 100,000 stock options to an employee which vested immediately and expires 5 years from the date of the grant. The stock options are exercisable into common shares at \$2.75 per stock option granted. No stock options were exercised during the period.

The fair value of stock options granted during the period of \$88,376 (2019 - \$51,423) was estimated on the date of grant using the Black-Scholes option price model with the following assumptions:

Share price (\$/share)	\$2.74
Exercise price (\$/share)	\$2.75
Expected life (years)	5
Risk-free interest rate (%)	0.75%
Expected volatility (%)	88%
Expected dividends (\$/share)	\$0.25

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

The stock options expire on March 25, 2025.

Vitreous Glass Inc.

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Share capital (continued)

c) Net income per share

The weighted average number of common shares used in the calculation of basic net income per share is 6,283,667 for the three and nine months ended June 30, 2020 (2019: 6,283,667). The weighted average number of common shares used in the calculation of diluted net income per share for three and nine months ended 2020 is 6,389,162 and 6,383,667 respectively (2019 – 6,386,399 and 6,363,887 respectively).

12. General and administrative expenses

General and administrative expenses are comprised of:

	Three Months Ended June 30		Nine months Ended June 30	
	2020	2019	2020	2019
Salaries, employee benefits and director fees	\$ 14,974	\$ 34,705	\$ 78,514	\$ 106,164
Cash flow based compensation	93,745	94,548	552,341	522,692
Professional and consulting fees	10,000	10,000	43,800	30,000
Other general expenses	42,360	51,444	137,630	154,207
	\$ 161,079	\$ 190,697	\$ 812,285	\$ 813,063

Salaries, employee benefits and director fees for the three and nine months ended June 30, 2020 are shown net of \$18,902 for grants received under the Federal Canadian Emergency Wage Subsidy program (three and nine months ended June 30, 2019 - \$nil)

13. Changes in non-cash working capital

Funds provided by (used in):	Nine months Ended June 30	
	2020	2019
Accounts receivable	\$ 712,334	\$ 596,913
Inventory	35,640	(121,727)
Prepaid expenses	(60,572)	7,861
Accounts payable and accrued liabilities	(51,472)	(65,405)
Income taxes payable/recoverable	7,004	(35,716)
	\$ 642,934	\$ 381,926

14. Economic dependence

During the periods ended June 30, 2020 and 2019, 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 represented 67.2% (2019 – 58.4%) and 25.7% (2019 – 30.9%) respectively, of total sales.

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

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15. 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 is 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. 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.

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 June 30, 2020, 76.8% (June 30, 2019 – 87.1%; September 30, 2019 – 95.0%) of accounts receivable are due from two customers.

At each period-end, the Company assesses if there have been any impairments of accounts receivable. At June 30, 2020 and September 30, 2019, the Company had no accounts receivable past due based on customer credit terms. There was no impairment provision.

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 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 also has available a credit facility to manage liquidity risk (note 8a).

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.

Vitreous Glass Inc.

Notes to the Condensed Interim Financial Statements

For the nine month period ended June 30, 2020 and 2019
(unaudited)

Financial instruments and risk management *(continued)*

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 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 tangible net worth covenant on its facility (Note 7).

There have been no changes to the Company's capital management during the period ended June 30, 2020.

g) COVID-19 pandemic risks

The COVID-19 pandemic, commencing in March 2020, has introduced new risks of disruption to the Company's day to day operations. These risks may impact the financial performance and the financial condition of the Company. Beginning in March 2020, the Company has taken specific actions to mitigate these risks. 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.