

**VITREOUS GLASS INC. (“Company”)
INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS
FOR THE THREE AND NINE MONTHS ENDED June 30, 2020**

This *Management Discussion and Analysis – Quarterly Highlights* (“Quarterly Highlights”) is dated August 7, 2020.

This Quarterly Highlights has been prepared to provide material updates regarding the business operations, liquidity and capital resources of the Company to its most recent Annual Management Discussion & Analysis (Annual MD&A”) for the year ended September 30, 2019. This Quarterly Highlights does not provide a general update to the Annual MD&A or reflect any non-material events since December 10, 2019, the date of the Annual MD&A.

This Quarterly Highlights has been prepared in compliance with the requirements of section 2.1.1 of Form 51-102F1, in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations*. This Quarterly Highlights should be read in conjunction with the Annual MD&A, the unaudited financial statements of the Company for the three and nine months ended June 30, 2020 and the audited financial statements for the year ended September 30, 2019. The unaudited financial statements of the Company for the three and nine months ended June 30, 2020 have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board IASB). Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Advisory Regarding Forward Looking Statements

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

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

In particular, forward looking statements and information include assumptions that (i) there will be continuing market demand for fiberglass insulation; (ii) the Company's customers will continue to operate their Alberta plants at a level where historical levels of demand for glass are present; and (iii) glass supply and transportation will continue to be available on an economically viable basis. 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 Quarterly Highlights and the Company does not undertake any obligation to update publicly or revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

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 described in the Annual MD&A for the year ended September 30, 2019 and the unaudited financial statements of the Company for the three and nine months ended June 30, 2020 are considered by management to be the most important in the context of the Company's business and are substantially unchanged as of the date of this Quarterly Highlights. Those risks and uncertainties are not inclusive of all the risks and uncertainties the Company may be subjected to and other risks may apply.

In the three months ended June 30, 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 report, 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.'

Overview of operations

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

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

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

Revenue is dependent upon the quantity of Vitreous product purchased by its customers. Customer demand is in turn driven by demand for fiberglass building insulation that is affected by seasonal variations

in the building industry, cyclical variations in the building industry and unexpected events including events of a nature that can cause unexpected increases or decreases in building activity. The Company ships to its customers based on their day-to-day consumption.

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

At times the Company's available supply is inadequate to meet customer demand; at other times supply is in excess of customer demand. The Company has limited control over available supplies and makes every effort to take advantage of customer demand to the extent possible. The Company continues to seek additional sources of raw glass.

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

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

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 three months ended June 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 June 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

Since April 1, 2020 COVID-19 pandemic has had a significant impact on the incoming supply of waste glass which is the raw material required for production of product for sale.

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 at levels comparable to those experienced in the six months prior to the onset of the COVID-19 pandemic. Specifically, the total number of Short Tons received in June were at 56.5% of the monthly average of the six months ended March 31, 2020, whereas the total number of Short Tons received in May and June were 100.3% and 111.5% respectively of the monthly average of the six months ended March 31, 2020.

As noted above in "Overview of operations", 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 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 (see comments in "Review of operations). 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.

One major customer suspended its plant operations from April 1, 2020 to late June 2020 as part of their regular operating schedule. This major customer suspended its plant operations for a similar period in the same quarter of the prior year. This resulted in suspension of any deliveries to this customer for almost all of the three months ended June 30, 2020, until sales to this customer resumed in the last week of June with sales totaling \$59,605. 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'.

Financial performance and financial condition

In the three months ending June 30, 2020, the Company earned net income of \$232,070 (\$0.04 per share) on sales of \$1,298,960 compared to \$223,751 (\$0.04 per share) on sales of \$1,447,985 in the same three months of the prior year.

The 10.3% (\$149,025) decrease in sales was 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.

Gross margin amount before depreciation in the three months ending June 30, 2020 decreased by 7.6% (\$43,385) compared to the same quarter of the prior year due to a 10.3% (\$149,025) decrease in total sales offset by a 7.6% (\$105,640) decrease in total cost of sales before depreciation. Gross margin percentage before depreciation improved by 1.2 percentage points to 40.6% compared to 30.9% for the same three months of the prior year primarily due to (i) a reduction in plant wages in the amount of \$95,680 due to CEWS grant amounts received in the current three months (2019 - \$nil), as discussed under "Federal Government CEWS Assistance", and (ii) a reduction in Repairs and Maintenance costs arising from an adjustment to prepaid expense amounts of replacements parts on hand in the current quarter.

Net income for the three months ended June 30, 2020 increased by 3.7% (\$8,321) compared to the same quarter of the prior year because the decrease of 7.6% (43,385) in gross margin amount before depreciation was more than offset by (i) a 50% (\$52,475) reduction in depreciation charged to cost of sales combined with a 15.6% (\$29,618) reduction in general & administrative expenses primarily due to CEWS grant amounts received in the current period, as discussed under "Federal Government CEWS Assistance".

During the three months ended June 30, 2020 and 2019, all sales were to three customers in the fiberglass insulation manufacturing industry, of which one customer exceeded 10% of total sales. Sales to that customer comprised 85.5% of total sales for the three months ended June 30, 2019 (2019 - 87.3%).

In the nine months ending June 30, 2020, the Company earned net income of \$1,433,299 (\$0.23 per share) on sales of \$6,495,261 compared to \$1,273,122 (\$0.20 per share) on sales of \$6,020,131 in the same period of the prior year.

The 7.9% (\$475,130) increase in sales was due to the combined effect of a 2.3% increase in the average selling price per unit sold and a 5.5% increase in the volume of product sold in the current nine months compared to the same period of the prior year.

Gross margin amount before depreciation in the nine months ending June 30, 2020 increased by 3.9% (\$112,514) compared to the same period of the prior year primarily due to a 7.9% (\$475,130) increase in total sales, offset by a 11.6% (\$362,616) increase in the total cost of sales in the current nine month period compared to the same period of the prior year. The 11.6% (\$362,616) increase in total cost of goods sold was primarily due to a 27.2% (\$454,603) increase in cost of raw glass sold offset by (i) a 5.8% (\$43,149) reduction in plant labour costs due to a Canadian Emergency Wage Subsidy received in the three months ended March 31, 2020, and (ii) a 17.4% (\$45,801) decrease in Repairs and Maintenance costs in the nine months ended June 30, 2020 compared to the same period of the prior year. Gross margin percentage prior to depreciation declined by 1.8 percentage points to 46.4% compared to 48.2% for the nine months ended June 30, 2020 compared to the same period for the prior year primarily due to a 20.6% increase in the unit cost of glass sold.

Net income for the nine months ending June 30, 2020 increased by 12.6% (\$160,177) primarily due to the 3.9% (\$112,514) increase in gross margin amount prior to depreciation combined with a decrease of 48.0% (\$144,871) in depreciation charged to cost of sales, offset by a concomitant increase in total income tax charges.

During the nine months ended June 30, 2020, all sales were to three customers in the fiberglass insulation manufacturing industry, of which two customers exceeded 10% of total sales. As discussed above, one major customer temporarily suspended operations such that sales to this customer in the three months ended June 30, 2020 were only \$59,605 (2019 - \$nil). Sales to these two customers comprised 62.7% and 25.7% respectively of total sales for the nine months ended June 30, 2019 (2019, 58.4% and 30.9% respectively).

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

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 three months ended June 30, 2020 (and for the nine months ending June 30, 2020), the Company qualified for and received grant payments under the CEWS program totaling \$114,582 (\$nil for the three and nine months ending June 30, 2019).

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

Reduction in plant wages	\$95,680
Reduction in general & administrative expense	<u>18,902</u>
Total	<u>\$114,582</u>

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

As discussed in “Financial performance and financial condition”, the COVID-19 pandemic did not cause any significant impact on financial results for the three months ended June 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'.

Liquidity and capital resources

The Company continues to carry an available revolving demand operating line of credit in an authorized amount of \$750,000 bearing interest at prime plus 0.9% per annum, secured by a general security agreement covering all property of the Company except for accounts receivable from one major customer. This line of credit is to be used to finance any short-term operating cash requirements. No balance was outstanding as at June 30, 2020 or September 30, 2019 (\$Nil as at June 30, 2019 and September 30, 2018).

The Company's debt at June 30, 2020 comprised normal trade payables, income taxes payable, accrued liabilities and a long-term 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 and has available credit facilities to meet its obligations as they fall due, and anticipates no change in the ability to meet such obligations on an ongoing basis.

Any modest plant capital expenditures are generally financed from ongoing cash flows from operations before payment of dividends. The Company also sets aside funds against the possibility of a major capital replacement or upgrade. The amount of such funds set aside is \$450,366 as at June 30, 2020 (\$361,992 as at September 30, 2019; \$363,474 as at June 30, 2019). Currently there are no planned major capital replacements or upgrades.

Having reviewed a variety of alternatives over the years, the Company's Board has concluded that the optimum value for shareholders at this time is obtained by continuing to run the Company's business and to pay dividends as the results of the business allow after consideration of the additional liquidity risks arising from the COVID-19 pandemic as discussed under 'COVID-19 pandemic: impact on liquidity and financial resources'.

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.

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. As at March 31, 2020, cash on hand including reserves held to finance possible future investments in property, plant equipment totaled \$1,300,323. In order to maintain this cash reserve, and to maximize the liquidity of the Company, the directors decided in April to suspend the May 15 2020 dividend.

As at June 30, 2020, cash on hand, including cash reserves held to finance possible future investments in property, plant and equipment totaled \$2,152,039. As at the date of this report, August 7, 2020, this cash reserve figure increased to \$2,754,696. This includes distributable cash arising from operations that, in usual circumstance in accordance with Company policy, would have been distributed by way of quarterly dividend payable May 15, 2020.

On July 15, 2020 the Directors approved the payment of a dividend on August 14, 2020 in the amount of \$0.15 for a total cash distribution of \$942,550. After allowing for payment of this dividend, the total cash on hand as of August 7, 2020 is \$1,812,145. Management is confident 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.

Related Party Transactions

The Company obtained (and continues to obtain) consulting services from David Birkby, a director of the Company, at a cost of \$2,000 in the three months ended June 30, 2020 and \$6,000 for the nine months ended June 30, 2020 (\$2,000 and \$6,000 for the same periods in the prior year). These services are related to plant operations and plant management.

The Company obtained (and continues to obtain) consulting services from Timothy H. Rendell CPA, an executive director of the Company, at a cost of \$12,600 in the three months ended June 30, 2020 and \$37,800 for the nine months ended June 30, 2020 (\$12,500 and \$35,576 for the same periods in the prior year). These services are related to providing Chief Financial Officer services under a personal services contract.