

**VITREOUS GLASS INC. (“Company”)  
INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS  
FOR THE THREE AND NINE MONTHS ENDED June 30, 2022**

This *Management Discussion and Analysis – Quarterly Highlights* (“Quarterly Highlights”) is dated August 18, 2022.

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, 2021. This Quarterly Highlights does not provide a general update to the Annual MD&A or reflect any non-material events since December 9, 2021, 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 condensed interim financial statements of the Company for the three and nine months ended June 30, 2022 and the audited financial statements for the year ended September 30, 2021. The unaudited condensed interim financial statements of the Company for the three and nine months ended June 30, 2022 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](http://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, 2021 and the unaudited condensed interim financial statements of the Company for the three and nine months ended June 30, 2022 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.

Since March 1, 2020 the COVID-19 pandemic has introduced new unprecedented risks and uncertainties throughout the world, and has introduced 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 the Annual MD&A for the year ended September 30, 2021, the Company 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 Annual MD&A sections 'Risk and uncertainties, including COVID-19 pandemic', '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 specific COVID-19 pandemic related risks and the actions the Company has taken to mitigate these risks have not changed in the nine months ended June 30, 2022. The Company continues to monitor and act in compliance with the guidelines and pronouncements of all relevant health authorities.

### **Overview of operations**

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.

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.

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.

### **Financial performance and financial condition**

In the three months ending June 30, 2022, the Company earned net income of \$568,471 (\$0.09 per share) on sales of \$2,592,226 compared to \$773,244 (\$0.12 per share) on sales of \$3,047,689 in the same three months of the prior year. This decrease in sales and net income was due to a reduction in the supply of raw glass being available to the Company in the three months ending June 30, 2022 compared to the unexpected additional supply of raw glass being available in the same three months of the prior year. In addition, in the same three months of the prior year, the Company experienced unexpected additional demand by its two main customers driven by higher demand for fiberglass insulation. The Company benefited significantly from this unexpected surge in demand that fortuitously coincided with an unanticipated and unrelated increase in the supply of raw glass that enabled the Company to meet the increase in demand. As discussed under 'Risks and Uncertainties' and 'Review of Operations' the levels of supply of raw glass and the levels of demand by our customers will continue to fluctuate beyond the control of the Company. These fluctuations are not susceptible to prediction or forecast by the Company.

The 14.9% (\$455,463) decrease in sales was due to a 22.0% decrease in the volume of product sold slightly offset by a 9.1% 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, 2022 decreased by 23.5% (\$355,702) compared to the same quarter of the prior year primarily due to the 22.0% decrease in the

volume of product sold in the current quarter compared to the same quarter of the prior year, combined with a 20.1% increase in the overall average unit cost of glass sold.

Net income for the three months ended June 30, 2022 decreased by 26.5% (\$204,773) compared to the same quarter of the prior year due to the 23.5% (\$355,702) decrease in gross margin amount before depreciation offset by a 21.3% (\$102,558) decrease in general & administrative expenses and a 26.4% (\$61,489) decrease in current income taxes. General & administrative expenses decreased due to an increase in the incentive-based nature of the compensation of the Chief Executive Officer and the Chief Operating Officer.

During the three months ending June 30, 2022 and 2021, all sales were to three customers in the fiberglass insulation manufacturing industry, of which two customers exceeded 10% of total sales. Sales to those two customers comprised 54.8% and 36.38% of total sales for the three months ended June 30, 2022 (2021 – 57.3% and 36.1%).

In the nine months ending June 30, 2022, the Company earned net income of \$1,735,186 (\$0.28 per share) on sales of \$7,333,390 compared to \$2,689,691 (\$0.43 per share) on sales of \$9,528,406 in the same nine months of the prior year. This significant decrease in sales and net income was due to a reduction in the supply of raw glass being available to the Company in the nine months ending June 30, 2022 compared to the unexpected additional supply of raw glass being available in the same nine months of the prior year. In addition, in the same nine months of the prior year, the Company experienced unexpected additional demand by its two main customers driven by higher demand for fiberglass insulation. The Company benefited significantly from this unexpected surge in demand that fortuitously coincided with an unanticipated and unrelated increase in the supply of raw glass that enabled the Company to meet the increase in demand. As discussed under 'Risks and Uncertainties' and 'Review of Operations' the levels of supply of raw glass and the levels of demand by our customers will continue to fluctuate beyond the control of the Company. These fluctuations are not susceptible to prediction or forecast by the Company.

The 23.0% (\$2,195,016) decrease in sales was due to a 27.8% decrease in the volume of product sold slightly offset by a 6.7% increase in the average selling price per unit in the current nine months compared to the same nine months of the prior year.

Gross margin amount before depreciation in the nine months ending June 30, 2022 decreased by 31.3% (\$1,598,304) compared to the same nine months of the prior year primarily due to the 27.8% decrease in the volume of product sold in the current nine months compared to the same nine months of the prior year, combined with a 16.4% increase in the overall average unit cost of glass sold.

Net income for the nine months ended June 30, 2022 decreased by 35.5% (\$954,505) compared to the same nine months of the prior year due to the 31.3% (\$1,598,304) decrease in gross margin amount before depreciation offset by a 26.1% (\$400,818) decrease in general & administrative expenses and a 34.2% (\$271,422) decrease in current income taxes. General & administrative expenses decreased due to an increase in the incentive-based nature of the compensation of the Chief Executive Officer and the Chief Operating Officer.

During the nine months ended June 30, 2022 and 2021, all sales were to three customers in the fiberglass insulation manufacturing industry, of which two customers exceeded 10% of total sales. Sales to those two customers comprised 53.9% and 37.2% respectively of total sales for the nine months ended June 30 31, 2022 (2021 – 55.8% and 38.2% respectively).

As at June 30, 2022, 75.0% (September 30, 2021 – 71.6%; June 30, 2021 – 70.2%) of accounts receivable are due from those two customers.

As at June 30, 2022, accounts receivable totaled \$747,011 (2021 - \$748,353) compared to \$448,377 as at the prior year end at September 30, 2021. As at July 31, 2022, these accounts receivable had been reduced to \$583,376, of which 77.0% are current (under 30 days). Management is satisfied that all accounts receivable as at June 30, 2021 are fully collectible.

### **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. The Company received grant payments under the CEWS program in the year ended September 30, 2020. However, in the three months and nine months ended June 30, 2022 the Company did not qualify for and did not receive any grant payments under the CEWS program (2021 – nil).

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

The COVID-19 pandemic did not cause any significant impact on financial results for the three and nine months ended June 30, 2022. 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.

### **Liquidity and capital resources**

The Company's debt at June 30, 2022 comprised normal trade payables, 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 to meet its obligations as they fall due, and anticipates no change in the ability to meet such obligations on an ongoing basis.

In the nine months ended June 30, 2022, the Company spent \$563,943 on additions to plant and equipment to complete a capital project to increase the capacity of storage silos for finished goods awaiting delivery to customers, and \$16,477 on new computer hardware. Currently there are no other planned major capital replacements or upgrades.

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 \$450,000 as at June 30, 2022 (\$450,000 as at September 30, 2021; \$450,000 as at June 30, 2021).

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 in the Annual MD&A for the year ended September 30, 2021.

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.

### **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 ending June 30, 2022 and \$6,000 for the nine months ending June 30, 2022 (\$2,000 and \$6,000 for the same periods in the prior year). These services are related to plant operations and plant management.