

VITREOUS GLASS INC. (“Company”)
INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS
FOR THE THREE AND SIX MONTHS ENDED March 31, 2021

This *Management Discussion and Analysis – Quarterly Highlights* (“Quarterly Highlights”) is dated May 17, 2021.

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, 2020. This Quarterly Highlights does not provide a general update to the Annual MD&A or reflect any non-material events since December 9, 2020, 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 six months ended March 31, 2021 and the audited financial statements for the year ended September 30, 2020. The unaudited condensed interim financial statements of the Company for the three and six months ended March 31, 2021 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, 2020 and the unaudited condensed interim financial statements of the Company for the three months ended March 31, 2021 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.

Risks and uncertainties with respect to supply of raw glass and customer demand for the Company's product are further discussed under 'Overview of operations'.

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, 2020, 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 '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 six months ended March 31, 2021. 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 three other suppliers, each of which involve different costs, 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. Over the past six months up to March 31, 2021, the Company has received additional quantities of raw glass from one supplier significantly in excess of the quantities previously available from that supplier. For the three and six months March 31, 2021, the quantity received from this supplier comprised 23.2% and 23.4% respectively of total raw glass received in the period. For the prior year ended September 30, 2020, the quantity received from this supplier comprised 10.8% (2019 – 7.8%) of the total raw glass received in the year. As further discussed under 'Financial performance and financial condition', this additional supply combined with higher demand by customers has resulted in higher levels of profitability for the Company over the past six months. If that supplier discontinues these additional quantities of raw glass, this would result in a concomitant reduction in operating results and cash flow. The Company is not able to forecast the volumes of raw glass that may be available in the future.

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.

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

Financial performance and financial condition

In the three months ending March 31, 2021, the Company earned net income of \$880,260 (\$0.14 per share) on sales of \$3,065,845 compared to \$551,841 (\$0.09 per share) on sales of \$2,642,089 in the same three months of the prior year. This increase in sales and net income was due to an unexpected additional supply of raw glass being available to the Company combined with unexpected additional demand by our 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 16.0% (\$423,576) increase in sales was due to a 13.7% increase in the volume of product sold combined with a 2.0% 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 March 31, 2021 increased by 36.7% (\$449,726) compared to the same quarter of the prior year primarily due to the 16.0% increase in the sales in the current quarter compared to the same quarter of the prior year, combined with a 6.7% reduction in the overall average unit cost of glass sold. The reduction in overall average unit cost of glass sold was primarily due to a write up of the inventory of raw glass on hand at the Linden storage site as at March 31, 2021 by an amount of \$121,064. This write up was made to adjust the book value of raw glass on hand to the actual amount on hand according to physical measurement processes as at March 31, 2021. Management regards this adjustment as a periodic non-recurring item. If this write up had not been made, the gross margin amount before depreciation in the three months ending March 31, 2021 would have increased by only 26.8% (\$328,662) compared to the same quarter of the prior year.

This gross margin amount was also positively impacted by a change effective October 1, 2020 whereby certain costs relating to profit sharing and salaries previously reported as Salaries and Benefits in Cost of Sales are now reported as General and Administrative expenses in the three months ended March 31, 2021, while prior year amounts remain as previously reported. Gross margin percentage before depreciation improved by 6.5 percentage points to 54.6% compared to 46.4% for the same three months of the prior year. If the prior year figures were reported on the same basis as the current three months ended March 31, 2021, the gross margin percentage before depreciation would have increased by only 5.3 percentage points to 54.6% from 49.3%.

Net income for the three months ended March 31, 2021 increased by 59.5% (\$328,419) compared to the same quarter of the prior year primarily due to the 36.7% (\$449,726) increase in gross margin amount before depreciation offset by a 55.8% (\$179,573) increase in General & Administrative expenses. General & Administrative expenses increased due to an increase in the incentive-based nature of the compensation of the Chief Executive Officer and the Chief Operating Officer, and due to the change in reporting of some expenses effective October 1, 2020, whereby certain costs relating to profit sharing and salaries previously reported as Salaries and Benefits in Cost of Sales are now reported as General and Administrative expenses in the three months ended December 31, 2020, while prior year amounts remain as previously reported. If the prior year figures were reported on the same basis as the current three months ended March 31, 2021, General & Administrative expenses would have only increased by 25.4% (\$101,596).

During the three months ended March 31, 2021 and 2020, 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 56.0% and 37.9% of total sales for the three months ended March 31, 2021 (2020 – 61.4% and 32.9%).

In the six months ending March 31, 2021, the Company earned net income of \$1,916,872 (\$0.31 per share) on sales of \$6,481,141 compared to \$1,201,229 (\$0.19 per share) on sales of \$5,196,301 in the same three months of the prior year. This increase in sales and net income was due to an unexpected additional supply of raw glass being available to the Company combined with unexpected additional demand by our 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 24.7% (\$1,284,840) increase in sales was due to a 20.5% increase in the volume of product sold combined with a 3.5% 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 six months ending March 31, 2021 increased by 44.1% (\$1,097,511) compared to the same quarter of the prior year primarily due to the 24.7% increase in the sales in the current quarter compared to the same quarter of the prior year, combined with a 6.1% reduction in the overall average unit cost of glass sold. . The reduction in overall average unit cost of glass sold was primarily due to a write up of the inventory of raw glass on hand at the Airdrie plant site as at December 31, 2020 in the amount of \$89,006, and a write up of the inventory of raw glass on hand at the Linden storage site as at March 31, 2021 by an amount of \$121,064. Both write-ups were made to adjust the book value of raw glass on hand to the actual amount on hand according to physical measurement processes as at those dates. Management regards these two adjustments as periodic non-recurring items. If these two write-ups totaling \$210,070 had not been made, the gross margin amount before depreciation in the six months ending March 31, 2021 would have increased by only 35.6% (887,741) compared to the same period of the prior year.

This gross margin amount was also positively impacted by a change effective October 1, 2020 whereby certain costs relating to profit sharing and salaries previously reported as Salaries and Benefits in Cost of Sales are now reported as General and Administrative expenses in the six months ended March 31, 2021, while prior year amounts remain as previously reported. Gross margin percentage before depreciation improved by 6.5 percentage points to 55.3% compared to 47.9% for the same six months of the prior year. If the prior year figures were reported on the same basis as the current six months ended March 31, 2021, the gross margin percentage before depreciation would have increased by only 4.3% percentage points from 51.0 to 55.3%.

Net income for the six months ended March 31, 2021 increased by 59.6% (\$715,643) compared the to the same six months of the prior year primarily due to the 44.1% (\$1,097,511) increase in gross margin amount before depreciation offset by a 61.6% (\$401,353) increase in General & Administrative expenses. General & Administrative expenses increased due to an increase in the incentive-based nature of the compensation of the Chief Executive Officer and the Chief Operating Officer, and due to the change in reporting of some expenses effective October 1, 2020, whereby certain costs relating to profit sharing and salaries previously reported as Salaries and Benefits in Cost of Sales are now reported as General and Administrative expenses in the six months ended March 31, 2021, while prior year amounts remain as previously reported. If the prior year figures were reported on the same basis as the current six months ended March 31, 2021, General & Administrative expenses would have only increased by 29.8% (\$241,966).

During the six months ended March 31, 2021 and 2020, 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 55.1% and 39.1% of total sales for the six months ended March 31, 2021 (2020 – 62.6% and 31.0%).

As at March 31, 2020, 69.3% (September 30, 2020 – 88.7%; March 31, 2020 – 89.4%) 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 and six months ended March 31, 2021 the Company did not qualify for and did not receive any grant payments under the CEWS program (2020 – 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 six months ended March 31, 2021. 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 March 31, 2021 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 \$450,000 as at March 31, 2021 (\$450,000 as at September 30, 2020; \$413,749 as at March 31, 2020). The Company has committed to increasing its storage capacity for finished glass temporarily held pending delivery to customers. This increased capacity will facilitate the scheduling of production from the plant with the scheduling of deliveries to customers. The total project cost is expected to be approximately \$420,000, and this project will be completed in this fiscal year. In anticipation of this project, the Company withheld \$200,000 from the cash otherwise available for distribution for the cash dividend of \$0.08 per share declared on April 15, 2021. The Company intends to withhold the balance of the project costs from cash otherwise available for distribution for the next cash dividend expected to be declared in July 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, 2020.

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 ended March 31, 2021 and \$4,000 for the six months ended March 31, 2021 (\$2,000 and \$4,000 for the same periods in the prior year). These services are related to plant operations and plant management.

Effective October 1, 2020, the Company hired Timothy H. Rendell CPA, a director of the Company, under the terms of an employment contract to serve as Chief Financial Officer (part time). From October 1, 2020, his salary costs are included in General & Administrative expenses. The Company previously obtained consulting services under a personal services with Mr. Rendell contract to provide Chief Financial Officer services at a cost of \$12,600 and \$25,200 for the same periods in the prior year.