



# ***WESTBOND ENTERPRISES CORPORATION***

## ***2012 Annual Report***

**WestBond Enterprises Corporation  
7871 82<sup>nd</sup> Street  
Delta, British Columbia  
Canada V4G 1L9**

**Telephone: 604-940-3939  
Fax: 604-940-9161  
e-mail: [info@westbond.ca](mailto:info@westbond.ca)**

**[www.westbond.ca](http://www.westbond.ca)**



## **WestBond Enterprises Corporation**

### **Management Discussion and Analysis**

**dated July 20, 2012, to accompany the consolidated financial statements for the year ended March 31, 2012**

***Caution Regarding Forward Looking Statements – This discussion includes statements about our expectations for the future. We believe that our expectations are reasonable; however, actual outcomes may differ materially from our expectations due to changes in operating performance, availability of and prices for raw materials, availability of trained labour, US\$/Cdn\$ exchange rate fluctuations, unexpected competition, and other technical, market and economic factors.***

### **Description of Our Business**

We, WestBond Enterprises Corporation (“WestBond” or the “Company”), are a paper converter that supplies disposable paper products to many market segments. We initially grew to become one of Canada’s leading manufacturers of medical disposables and later expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

Our product lines include clinical products such as examination table paper, dental bibs, sheets, pillowcases and gowns. The personal hygiene product line consists of hand towels and bathroom tissue in jumbo roll format as well as conventional formats. Our third major product line is patient wipes and underlays for long-term care facilities (nursing homes).

Our goal for the personal hygiene line is to increase sales by supplying a comprehensive paper product line directly to medium sized janitorial contractors providing public washroom maintenance services and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct or to the smaller distributors, we eliminate the “middle-man” and are able to offer more competitive pricing. Also, unlike our most significant competitors, we will configure our products to these customers’ specifications. Our current focus for expansion in this market is Canada and western USA. We will also pursue opportunities to supply these products directly to smaller hotel, motel and restaurant chains.

Our goal for the clinical and long-term care lines is to increase sales by continuing to provide quality products at competitive prices. Our focus for the clinical line is Canada. Long-term care products are sold in Canada and the USA.

Our plant comprises a variety of equipment that enables us to provide a comprehensive range of products for each of our product lines. In the past year we have also added additional equipment that allows us to utilize a wider variety of paper supplies, enabling us to take advantage of better raw material pricing opportunities.

**Personal Hygiene Products** – WestBond started this product line during 2002. Our decision to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing medical distributors who wanted to increase their purchasing ability with us. We evaluated this potential and determined that the medical industry had a high demand for these types of products. In addition, we soon learned that small to medium size distributors who sell to the janitorial market were not being serviced well by other paper converters.

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a specialty line of roll towels and bathroom tissue. This specialty line provides us with high margin products that few converters are able to produce. We manufacture our products in 1 and 2 ply formats. We sell these products to Canadian and US distributors and janitorial contractors in large order quantities.

**Clinical Products** – Historically, this product line represented the Company's core business. Basically, all paper products that are used by clinics, physicians, dentists, chiropractors and physiotherapists form this product category. The equipment that was originally installed to manufacture these paper products is very flexible, reliable and high speed. This allows us to develop new products that could be in demand in the future.

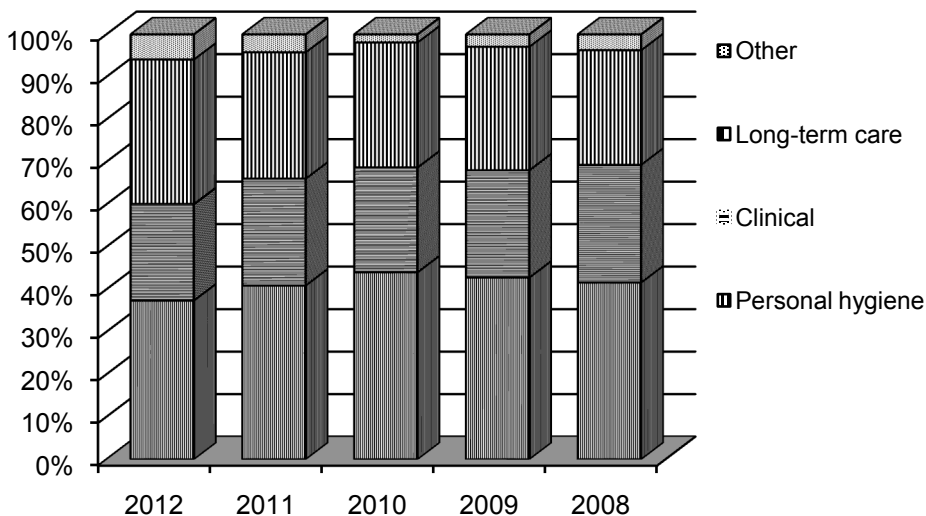
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

**Long-Term Care Products** – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate three entire production lines to these items. The products include patient wipes, mitts and underlays. All products are made with very high quality air laid paper which results in very soft, very absorbent wipes which are used as disposable wash cloths and perineal wipes.

Products are available in 1/4 fold, 1/8 fold, and roll formats, in a variety of widths and perforation lengths. The long-term care market is growing and we continue to develop new products for major Canadian and US distributors.

These three product groups represent WestBond's ability to adapt to market demands and develop product lines to satisfy these markets.

The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2008 through 2012.

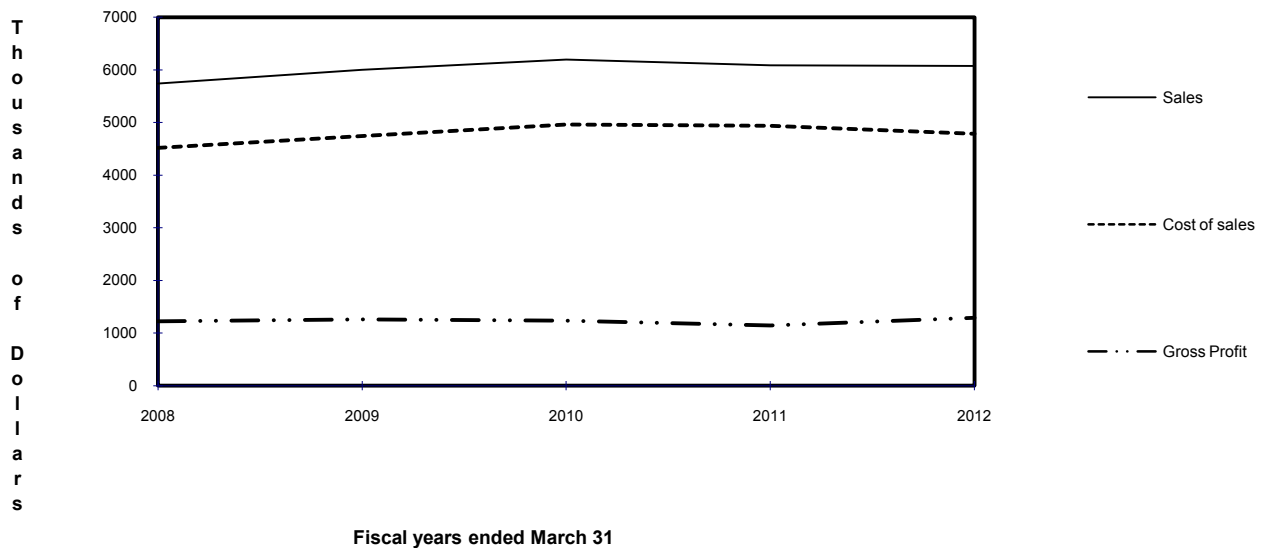


## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2012 while you read this discussion. Those financial statements provide significant, material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

Our profit for the year ended March 31, 2012 was \$124,135, compared to \$29,015 for the year ended March 31, 2011. Our gross profit margin realized during 2012 was 21.2%, compared to 18.8% for 2011 and 19.9% for 2010. Our gross profit margins have improved due to increased prices and lower raw materials costs. Sales volume growth had been hampered by competition from US and Chinese product. The low value of the US dollar makes their product cheaper in Canada, which has reduced our sales. Additionally, our sales into the US market, which are priced in US dollars, result in lower Canadian dollar margins.

Sales, Cost of Sales and Gross Profit



## Selected Annual Information (Unaudited)

We have summarized selected financial information from the Company's consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS). Results for the years ended March 31, 2011 and 2010 were previously reported in accordance with Canadian generally accepted accounting principles (GAAP). The Company's transition to IFRS effective April 1, 2010 had no effect on profit or comprehensive income for the year ended March 31, 2011. The results presented below for the year ended March 31, 2010 have been calculated in accordance with GAAP. This table has, however, been presented in conformance with the expense groupings used in the IFRS financial statements; specifically, foreign exchange gains and losses and interest expense, which were included in general and administrative expenses under GAAP, have been classified under IFRS outside of operating profit as other expenses.

Operating Results	Years ended March 31,					
	2012		2011		2010	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	6,078,464	100.0	6,085,350	100.0	6,198,326	100.0
Cost of sales	4,786,881	78.8	4,939,413	81.2	4,962,394	80.1
Gross profit	1,291,583	21.2	1,145,937	18.8	1,235,932	19.9
Selling and distribution expenses	545,580	9.0	537,459	8.8	493,376	8.0
General and administrative expenses	562,889	9.3	547,522	9.0	535,917	8.7
Other expenses	14,322	0.2	21,530	0.3	57,550	0.8
Profit before tax	168,792	2.7	39,426	0.7	149,089	2.4
Income tax expense	44,657	0.7	10,411	0.2	45,035	0.7
Profit and Comprehensive Income	124,135	2.0	29,015	0.5	104,054	1.7
Earnings per share, basic and diluted	0.011		0.003		0.009	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2012	2011	2010
	\$	\$	\$
Non-Current Assets	2,712,512	2,517,161	2,521,077
Current Assets	2,043,675	1,867,112	1,747,037
Total assets	4,756,187	4,384,273	4,290,547
Non-Current Liabilities	486,083	441,426	431,015
Current liabilities	1,228,724	1,025,602	971,302
Shareholders' equity	3,041,380	2,917,245	2,888,230

### Sales

Sales were \$6,078,464 for the year ended March 31, 2012, a 0.1% decrease over the year ended March 31, 2011. The table below summarizes the sales of the Company for the last five fiscal years.

	2012	2011	2010	2009	2008
	\$	\$	\$	\$	\$
Personal hygiene products	2,272,271	2,490,393	2,728,938	2,568,791	2,389,176
Clinical products	1,380,663	1,530,226	1,529,217	1,515,758	1,589,133
Long-term care products	2,067,114	1,809,194	1,822,673	1,744,811	1,548,265
Other products	358,415	255,537	117,497	173,948	212,862
Total sales	6,078,464	6,085,350	6,198,326	6,003,308	5,739,436
Change over previous year	-0.1%	3.2%	4.6%	-8.9%	0.7%

Sales decreased in personal hygiene products and clinical products and increased in long-term care products. The decrease in personal hygiene products is caused by increased competition from low priced US and Chinese producers and from a reduction in the Canadian dollar value of our US dollar priced product. The long-term care market continues strong due to the aging population. Growth in other products is from sales of disposable wiping towels for use in airplane galleys and from sales of industrial wiping paper. Approximately 23% of our sales are in priced in US dollars, mainly in the personal hygiene and long-term care products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar.

### **Cost of Sales**

The following table shows the components of cost of sales over the last five years.

	2012		2011		2010		2009		2008	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	3,189,726	52.5	3,336,987	54.8	3,362,612	54.2	3,225,162	53.7	3,028,269	52.8
Production labour	492,228	8.1	512,835	8.4	543,802	8.8	490,067	8.2	456,779	8.0
Factory overhead labour	257,186	4.2	284,285	4.7	253,980	4.1	221,141	3.7	226,769	4.0
Variable overhead	153,867	2.5	146,876	2.4	159,931	2.6	166,536	2.8	173,587	3.0
Fixed overhead	442,116	7.3	435,085	7.2	388,175	6.3	378,943	6.3	382,351	6.7
Depreciation	251,758	4.2	223,345	3.7	253,894	4.1	261,464	4.3	247,589	4.3
<b>Total cost of sales</b>	<b>4,786,881</b>	<b>78.8</b>	<b>4,939,413</b>	<b>81.2</b>	<b>4,962,394</b>	<b>80.1</b>	<b>4,743,313</b>	<b>79.0</b>	<b>4,515,344</b>	<b>78.7</b>

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. Personal hygiene products and examination table paper have a high materials component and a low labour component. By comparison, gowns, drapes, mitts, sheets and pillowcases have a higher labour component and a relatively lower materials component.

Paper prices, our most significant materials cost, were relatively stable in our 2012 fiscal year, after having increased every year since 2006. Paper prices can be volatile. Our prices to our customers have been set to allow for paper cost increases of up to 10%. Materials costs also fluctuate from differences in the yield factors (the amount of product that a certain weight of paper will produce).

Some of our paper suppliers are facing difficulty keeping mills that supply us open. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply of paper; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Labour in cost of sales averaged 8.1% of sales during 2012 which is an decrease from 8.4% in 2011, primarily caused by improved employee productivity and the addition of more efficient machinery. The labour market near our factory has been tight during the last few years and it has taken extra time to find and train new machine operators. We saw some relief in the 2010 fiscal year caused by a slowdown in the local construction industry. If we are unable to hire sufficient machine operators, we will not be able to produce additional products for sale.

Factory overhead labour increased in 2011 from the addition of a full-time factory raw materials handler. We discontinued this position in 2012 as we did not realize the expected savings in production labour efficiency. Variable overhead normally fluctuates slightly from one period to the next.

Higher rent added \$7,970 to fixed overhead in 2012, \$48,825 in 2011, and \$6,548 in 2010. Other fluctuations in fixed overhead are due to differences in insurance premiums. Increases in depreciation expense are the result of bringing new equipment into use. Depreciation expense decreased in 2011 because we extended our estimates of the economic life of much of our equipment.

### **Selling Expenses**

Shipping costs are higher in 2012 than in 2011 because of increased shipping rates and "fuel surcharges" and because sales to Central and Eastern Canada have increased while local sales have decreased. Sales commissions were higher in 2012, primarily to agents for customers in Central and Eastern Canada.

### **General and Administrative Expenses**

Office operating costs, insurance and bad debts expense caused our general and administrative costs to increase slightly in 2012 over 2011. Professional fees and salaries and employee benefits were also slightly higher, due to increased time spent during 2012.

We are exposed to fluctuations in the US/Cdn dollar exchange rates as portions of our cash, accounts receivable and accounts payable are denominated in US dollars. While the amounts of exposure change on a daily basis, we generally have more US dollar financial assets than US dollar liabilities. Over the past year, our exposure ranged from US\$32,000 to US\$220,000 and averaged approximately US\$142,000 (calculated on a quarterly basis). Each change of 1% (e.g., a change from US\$1.00 = Cdn\$0.99 to Cdn\$0.98) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn\$2,200 on an exposure of US\$220,000. During the year ended March 31, 2012 we realized a gain of \$4,005 compared to a loss of \$6,579 in 2011. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US suppliers.

Interest expense was higher in 2012 over 2011 because we took out a new term loan during 2012 and because our revolving bank loans were higher. Interest on our bank indebtedness fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2012, a 1% increase in the prime rate of interest would increase total interest expense by \$5,548 per year.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Recent general economic conditions may cause some of our customers to be less creditworthy. We regularly monitor our receivables aging and discuss overdue accounts with senior-level customer personnel to encourage more prompt payment and to evaluate future creditworthiness. At March 31, 2012, accounts receivable include \$11,755 that is more than 30 days past due and against which we have made no allowance for loss. We believe that we will eventually receive full payment of these amounts. During 2012 our bad debt losses amounted to \$5,367 compared to \$1,211 for 2011.

During the year ended March 31, 2012, professional fees include \$5,866 paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, one of our directors, is a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties. During the year ended March 31, 2012, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, taxes and perquisites), of \$332,304 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$301,584 of the compensation is included in general and administrative salaries and employee benefits, \$24,275 is included in administration and office and \$6,445 is included in other selling and distribution expenses.

### **Liquidity and Capital Resources**

Our operating cash flows were \$427,520 during the year ended March 31, 2012, an average of \$35,627 per month, compared to \$22,420 per month during 2011, before accounting for fluctuations in non-cash working capital. At March 31, 2012, we had cash of \$98,183 and working capital of \$814,951 compared to cash of \$159,186 and working capital of \$841,510 at March 31, 2011.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency and to pay off bank debt.

We have a revolving bank loan facility of \$1,000,000, of which \$377,000 was used at March 31, 2012. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$700,000 are not included in the calculation. Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$200,000 and accounts payable by an additional \$200,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We also have a \$177,776 non-revolving term loan facility that we used to partially finance the purchase of equipment during 2012. The loan is repayable in monthly instalments of principal of \$5,556 until November 30, 2012 at which time the then remaining principal and interest is due. The loan bears interest at bank prime plus 1%, payable monthly. A fixed charge on the specific equipment purchased is pledged as collateral.

We currently plan to spend a total of approximately \$200,000 on equipment expansions and improvements during the year ending March 31, 2013. We will finance these additions from operating cash flows. We may acquire additional equipment, if worthy new product opportunities arise. Financing for additional equipment would be available through operating cash flow and additional term loans.

### ***New Accounting Policies***

We adopted International Financial Reporting Standards (“IFRS”) effective April 1, 2011. There are several differences between IFRS and our previously applied Canadian generally accepted accounting principles (“Canadian GAAP”). The differences that had the most significant impact on our financial statements are the presentation layout, the accounting for plant and equipment, and expanded note disclosure. The differences had no effect on our profit, comprehensive income, financial position or cash flows at the “date of transition” (April 1, 2010) or for the year ended March 31, 2011.

IFRS require that the financial statements comprise a Statement of Financial Position (Balance Sheet), a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and Notes. The Statement of Financial Position is presented in order of relevant importance to the company, not necessarily in order of liquidity as in Canadian GAAP. The Statement of Comprehensive Income is presented with expenses classified either by function (e.g., cost of sales, selling, general and administrative) or by nature (e.g., materials, labour, depreciation) but not both (which was how our Canadian GAAP Statement of Income and Comprehensive Income was presented). Note disclosure is made of the nature of expenses if the expenses are classified by function. The Statement of Changes in Equity, which is not required under Canadian GAAP, provides a reconciliation between the opening and ending balances of each component of equity. The Statement of Cash Flows under IFRS is similar to Canadian GAAP.

Plant and equipment is more rigorously analysed and evaluated under IFRS than under Canadian GAAP. Depreciation rates, expected useful lives and residual values are estimated and adjusted, if necessary, at each reporting period. Depreciation under IFRS commences when the asset is available for use rather than when it is actually placed into use under Canadian GAAP. Impairment losses are recognized under IFRS if the present value of future cash flows (discounted) expected from an asset or group of assets exceeds its carrying amount and losses may be reversed later if the value recovers. Canadian GAAP uses undiscounted cash flows to determine impairment and recognized losses may not be reversed later. Expenditures on equipment already in service are capitalized under IFRS if the improvement is expected to benefit more than the current period, and then depreciated over the life of that improvement. If the improvement replaces a previous component of the equipment, the cost and accumulated depreciation related to the replaced component are removed under IFRS. Under Canadian GAAP, expenditures on equipment already in service are capitalized only if they improve the original performance or extend the life of the equipment. Expenditures to repair or replace original components are expensed and the original cost of the component is left in the accounts and depreciated over the remaining life of the equipment. We reduced our plant and equipment cost and accumulated depreciation by \$75,700 each to reflect components that were replaced during previous improvement projects. As the components were fully depreciated by the date of transition, there is no change to the net book value.

IFRS 1, *First-time adoption of International Financial Reporting Standards*, provides various optional exemptions from the application of other IFRSs. The only exemptions that are relevant to our financial statements relate to share based payments and the use of fair value as the deemed cost of items of plant and equipment at the date of transition. The exemption relating to share based payments, which we used, permits us to use the values assigned under Canadian GAAP to stock options which were fully vested by the date of transition as the values assigned under IFRS. We did not use the exemption that permits us to use the fair value of items of plant and equipment as their deemed cost under IFRS. We have made these elections in order to minimize the effect of conversion from Canadian GAAP to IFRS on our financial statements.



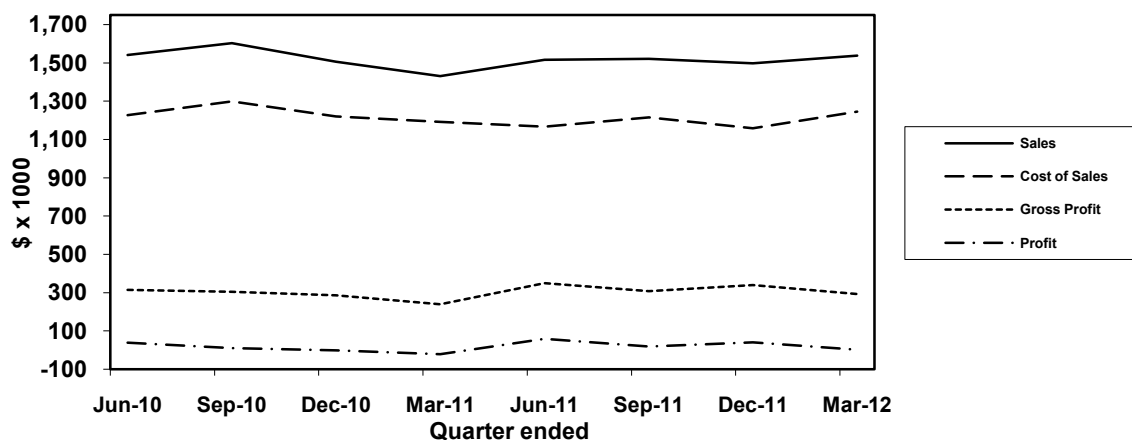
## Summary of Quarterly Results (Unaudited)

The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards.

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010	Jun 30 2010
Sales	1,539	1,499	1,523	1,517	1,432	1,507	1,604	1,542
Cost of sales	1,245	1,159	1,215	1,167	1,192	1,221	1,299	1,227
Gross profit	294	340	308	350	240	286	305	315
Selling and distribution expenses	137	137	139	133	128	129	141	139
General and administrative expenses	146	139	146	132	133	144	138	132
Other expenses (income)	7	7	(5)	5	7	12	11	(8)
Profit (loss) before tax	4	57	28	80	(28)	1	15	52
Income tax expense (recovery)	1	15	8	21	(7)	1	4	12
Profit (loss)	3	42	20	59	(21)	0	11	40
Earnings (loss) per share, basic and diluted - Cdn\$	0.000	0.004	0.002	0.005	(0.002)	0.000	0.001	0.004
<b>Sales - % change over previous quarter</b>	2.7	-1.6	0.4	6.0	-5.0	-6.1	4.1	18.5

### Costs, expenses and net income - % of Sales

Cost of sales	80.9	77.3	79.8	77.0	83.2	81.0	80.9	79.6
Selling and distribution expenses	8.9	9.2	9.1	8.7	9.0	8.6	8.8	9.0
General and administrative expenses	9.5	9.3	9.6	8.7	9.3	9.5	8.6	8.5
Other expenses (income)	0.4	0.4	-0.3	0.3	0.5	0.8	0.7	-0.5
Income tax expense	0.1	1.0	0.5	1.4	-0.5	0.1	0.3	0.8
Profit	0.2	2.8	1.3	3.9	-1.5	0.0	0.7	2.6



The fluctuations in sales are, for the most part, due to changes in volume. The reduction in the value of the US dollar has also caused our sales to decline. The economic stability of the global and North

American markets greatly affect our sales volumes. The recent recession has caused a drop in sales and reduced our gross profit.

Slight variations in cost of sales, as a percentage of sales, occur on a regular basis. These are caused by fluctuations in the product mix, production efficiencies and prices for raw materials. The increase in cost of sales during the quarter ended March 31, 2012 is due to the write-off of old unusable raw materials and additional depreciation caused by the re-estimation of the useful lives of some equipment.

### **Share Capital**

The Company has only one class of share capital, common shares without par value. The Company also has a stock option plan and a shareholder rights plan.

	<u>Amount at July 20, 2012</u>
Authorized common shares	Unlimited
Issued common shares	11,063,800
Shares issuable on exercise of outstanding stock options	800,000
Shares available for future stock option grants	1,200,000

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 2,000,000.

The shareholder rights plan (the "Plan") is meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the Company's annual general meeting in 2012. The Plan, in effect, allows holders of common shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction that is not a Permitted Bid under the Plan. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over bid circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

### **Other Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://www.westbond.ca).



July 20, 2012

## **Independent Auditor's Report**

### **To the Shareholders of WestBond Enterprises Corporation**

We have audited the accompanying consolidated financial statements of WestBond Enterprises Corporation, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

---

*PricewaterhouseCoopers LLP, Chartered Accountants  
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7  
T: +1 604 806 7000, F: +1 604 806 7806*



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation as at March 31, 2012, March 31, 2011 and April 1, 2010 and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**WestBond Enterprises Corporation**  
**Consolidated Statements of Financial Position**  
(Canadian Dollars)

	Notes	March 31 2012 \$	March 31 2011 \$	April 1 2010 \$
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Plant and equipment	6	2,690,079	2,494,728	2,521,077
Lease deposits		22,433	22,433	22,433
		<u>2,712,512</u>	<u>2,517,161</u>	<u>2,543,510</u>
<b>Current Assets</b>				
Inventory	7	1,099,252	1,010,150	994,256
Trade and other receivables		811,911	682,588	454,774
Prepaid expenses		34,329	15,188	21,999
Cash and cash equivalents		98,183	159,186	276,008
		<u>2,043,675</u>	<u>1,867,112</u>	<u>1,747,037</u>
<b>Total Assets</b>		<u><u>4,756,187</u></u>	<u><u>4,384,273</u></u>	<u><u>4,290,547</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Common shares issued and outstanding	8	2,099,703	2,099,703	2,099,703
Warrants	8	32,364	32,364	32,364
Stock options	8	254,510	254,510	254,510
Retained earnings		654,803	530,668	501,653
<b>Equity attributable to common shareholders</b>		<u>3,041,380</u>	<u>2,917,245</u>	<u>2,888,230</u>
<b>Liabilities</b>				
<b>Non-Current Liabilities</b>				
Deferred tax liability	9	486,083	441,426	431,015
<b>Current Liabilities</b>				
Revolving bank loans	10	377,000	337,000	475,000
Term bank loans	11	177,776	-	39,426
Trade and other payables		673,948	688,602	456,876
		<u>1,228,724</u>	<u>1,025,602</u>	<u>971,302</u>
<b>Total Liabilities</b>		<u>1,714,807</u>	<u>1,467,028</u>	<u>1,402,317</u>
<b>Total Equity and Liabilities</b>		<u><u>4,756,187</u></u>	<u><u>4,384,273</u></u>	<u><u>4,290,547</u></u>

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

**WestBond Enterprises Corporation**  
**Consolidated Statements of Comprehensive Income**  
(Canadian Dollars)

	Notes	<b>Year ended March 31</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>Sales</b>		6,078,464	6,085,350
<b>Cost of sales</b>	12	<u>4,786,881</u>	<u>4,939,413</u>
<b>Gross Profit</b>		1,291,583	1,145,937
<b>Selling and distribution expenses</b>	13	545,580	537,459
<b>General and administrative expenses</b>	14	<u>562,889</u>	<u>547,522</u>
<b>Operating Profit</b>		183,114	60,956
<b>Foreign exchange (gains) losses</b>		(4,005)	6,579
<b>Interest expense</b>		<u>18,327</u>	<u>14,951</u>
<b>Profit Before Tax</b>		168,792	39,426
<b>Income tax expense</b>	9	<u>44,657</u>	<u>10,411</u>
<b>Profit and Comprehensive Income for the Year</b>		<u><u>124,135</u></u>	<u><u>29,015</u></u>
<b>Weighted average shares outstanding</b>		<u>11,063,800</u>	<u>11,063,800</u>
<b>Earnings per share, basic and fully diluted</b>	15	<u>0.011</u>	<u>0.003</u>

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

**WestBond Enterprises Corporation**  
**Consolidated Statements of Changes in Equity**  
(Canadian Dollars)

	<b>Common Shares</b>	<b>Warrants</b>	<b>Stock Options</b>	<b>Retained Earnings</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Balance as at April 1, 2010</b>	2,099,703	32,364	254,510	501,653	2,888,230
<b>Profit for the Year</b>	-	-	-	29,015	29,015
<b>Balance as at March 31, 2011</b>	2,099,703	32,364	254,510	530,668	2,917,245
<b>Profit for the Year</b>	-	-	-	124,135	124,135
<b>Balance as at March 31, 2012</b>	<u>2,099,703</u>	<u>32,364</u>	<u>254,510</u>	<u>654,803</u>	<u>3,041,380</u>

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

**WestBond Enterprises Corporation**  
**Consolidated Statements of Cash Flows**  
(Canadian Dollars)

	Notes	<b>Year ended March 31</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>Operating Activities</b>			
Profit for the Year		124,135	29,015
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation		258,728	229,616
- deferred income tax		44,657	10,411
Cash flows from operating activities before changes in non-cash working capital		427,520	269,042
(Increase) decrease in			
- inventory		(89,102)	(15,894)
- trade and other receivables		(129,323)	(227,814)
- prepaid expenses		(19,141)	6,811
(Decrease) increase in			
- trade and other payables		(6,564)	238,452
Net Cash Flow from Operating Activities		183,390	270,597
<b>Investing Activities</b>			
Purchase of plant and equipment	16	(462,169)	(209,993)
<b>Financing Activities</b>			
Term loan proceeds		200,000	-
Repayment of term loans		(22,224)	(39,426)
Increase (decrease) in revolving bank loans		40,000	(138,000)
Net Cash Flow from Financing Activities		217,776	(177,426)
<b>Net Decrease in Cash and Cash Equivalents</b>		(61,003)	(116,822)
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		159,186	276,008
<b>Cash and Cash Equivalents at the End of the Year</b>		98,183	159,186
<b>Interest Paid</b>		18,260	14,958

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



# **WESTBOND ENTERPRISES CORPORATION**

## **Notes to the Consolidated Financial Statements**

**March 31, 2012 and 2011**

**(Canadian Dollars)**

### **1. GENERAL INFORMATION**

WestBond Enterprises Corporation and its subsidiary, WestBond Industries Inc., (together, the company) are a paper converter that manufactures disposable products for medical, hygienic and industrial uses. The company's manufacturing facilities are in Canada and its sales are primarily to Canada and the United States of America. The company is incorporated in British Columbia, Canada, and has its principal place of business at 7871 – 82<sup>nd</sup> Street, Delta, British Columbia.

The consolidated financial statements of the company for the year ended March 31, 2012 were authorized for issue by resolution of the directors on July 20, 2012.

### **2. BASIS OF PREPARATION AND ADOPTION OF IFRS**

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010 the CICA Handbook was revised to incorporate IFRS that require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the company has commenced reporting on this basis in these consolidated financial statements. In the consolidated financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

Subject to the transition elections disclosed in note 4, the company has consistently applied the same accounting principles in its opening IFRS consolidated statement of financial position at the transition date, April 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's previously issued consolidated financial statements for the year ended March 31, 2011 prepared in accordance with Canadian GAAP.

### **3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

#### **Basis of Measurement**

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

#### **Consolidation**

These consolidated financial statements consolidate the accounts of WestBond Enterprises Corporation and its wholly-owned subsidiary, WestBond Industries Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

#### **Functional and Presentation Currency and Foreign Currency Translation**

The consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the company operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the consolidated statements of comprehensive income.

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

#### Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

Depreciation is charged to profit using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

Factory equipment	- 5 to 25 years
Leasehold improvements	- 5 to 10 years
Office equipment	- 3 to 15 years

The company allocates the cost initially recognized in respect of an item of plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the plant and equipment are reviewed annually and adjusted if appropriate. Depreciation is not charged on assets until they are available for use in the location and condition necessary to be capable of operating in the manner intended by management.

Plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit or CGU). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. When events or circumstances warrant, impairment losses are evaluated for potential reversals.

#### Inventory

Inventory is measured at the lower of cost and net realizable value. Raw materials inventory costs include all costs incurred to bring the materials to their current state and location, including the purchase price, duties, non-refundable taxes and freight. Finished goods inventory includes, in addition to the cost of the raw materials incorporated into their manufacture, the costs of labour incurred directly in their manufacture and an allocation of indirect variable overhead, fixed overhead and depreciation on plant and equipment. Costs are assigned to inventory on a first-in, first-out basis. The overhead allocation is based on the proportionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

#### Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

- (i) **Financial Assets at Amortized Cost:** Financial assets are initially measured at fair value and classified as subsequently measured at amortized cost or fair value on the basis the business model for managing the financial asset and the contractual cash flow characteristics of the financial assets. A financial asset is subsequently measured at amortized cost only if it is held in a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The company's trade and other receivables are in this category and are subsequently measured at amortized cost using the effective interest method less a provision for impairment. Gains or losses on financial assets in this category are recognized in profit or loss when the financial asset is derecognized, impaired or reclassified.
- (ii) **Financial Assets at Fair Value:** Financial assets not meeting the criteria for subsequent measurement at amortized cost are initially and subsequently measured at fair value. The company's cash and cash equivalents are in this category. Gains or losses arising from changes in fair value are recognized in profit or loss unless the financial asset is an equity instrument that is not held for trading and the company has made an irrevocable election at initial recognition to present subsequent changes in its fair value in other comprehensive income.
- (iii) **Financial Liabilities at Amortized Cost:** Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.
- (iv) **Financial Liabilities at Fair Value through Profit or Loss:** A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The company holds no instruments classified in this category.  

Financial liabilities in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of comprehensive income. Gains and losses arising from changes in fair value are presented in the consolidated statements of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position dates, which is classified as non-current.
- (v) **Derivative financial instruments:** The company has no derivative financial instruments.

#### **Impairment of financial assets**

At each reporting date the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

#### Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days of deposit.

#### Stock-Based Compensation Plan

The company has a stock-based compensation plan that permits the directors of the company to grant incentive stock options to its employees, directors and consultants. Stock options generally vest over eight quarters (12.5% per quarter) and expire after five years. Each vesting block in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each block is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense for options granted to employees and directors, or the cost of goods or services acquired in exchange for options granted to non-employees, is recognized over each block's vesting period by reflecting a contribution to shareholders' equity based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

#### Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

#### Revenue

Revenue is recognized in the period during which the significant risks and rewards of ownership pass to the purchaser, it is probable that the economic benefits will flow to the company, the amount of revenue and costs incurred can be reliably measured and the company retains no managerial or effective control over the goods sold. This is generally when the goods are shipped. Revenue is measured based on agreed upon prices, net of estimated returns, discounts and rebates.

#### Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of stock options and warrants and that the assumed proceeds are used to purchase common shares at the average market price during the period. The excess, if any, over the number of shares assumed issued and the number of shares assumed purchased is added to the basic weighted average number of shares outstanding to determine the diluted number of common shares outstanding. If the average market price during the period is less than the exercise price of the stock options, no dilution will occur.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

##### Judgments and Estimates

The preparation of consolidated financial statements requires the company's management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and the disclosures in the notes to the consolidated financial statements. Actual results may differ from these estimates. Significant judgments and estimates are made in the determination of allowances for doubtful accounts receivable, the net realizable value of inventories, the useful lives of plant and equipment and the reversal dates of deferred income tax assets and liabilities.

#### 4. TRANSITION TO IFRS

The company's transition to IFRS did not have any effect on the profit, comprehensive income, equity or cash flows for the year ended March 31, 2011. The following asset reclassifications and adjustments were made on the company's transition to IFRS:

- Plant and equipment costs and accumulated depreciation were reduced by \$75,700 each at April 1, 2010 and each subsequent consolidated statement of financial position date. There was no change to the net book value. Under IFRS, expenditures on equipment already in service are capitalized if the improvement is expected to benefit more than the current period, and then depreciated over the life of that improvement. If the improvement replaces a previous component of the equipment, the cost and accumulated depreciation related to the replaced component are removed. Under Canadian GAAP, expenditures on equipment already in service are capitalized only if they improve the original performance or extend the life of the equipment. Expenditures to repair or replace original components are expensed and the original cost of the component is left in the accounts and depreciated over the remaining life of the equipment. This adjustment reflects the cost and accumulated depreciation of components that were replaced during improvement projects before the date of transition.
- Lease deposits in the amount of \$22,433 at April 1, 2010 and each subsequent statement of financial position date, have been reclassified as a non-current asset, separate from prepaid expenses, where they were included in the Canadian GAAP consolidated financial statements.

The company made the following elections on its transition to IFRS:

- The order of line items in the Consolidated Statement of Financial Position has been based on the relevant importance to the company.
- The Statement of Comprehensive Income is presented with expenses classified by function as management believes this provides meaningful information. Disclosure of the nature of the expenses is included in the Notes to the Consolidated Financial Statements.
- The company elected not to apply IFRS 2 *Share-Based Payments* to equity instruments that had vested before the transition date. All of the company's stock options outstanding had fully vested before the transition date.
- The company has elected to early adopt IFRS 9 *Financial Instruments* and its related amendments in order to eliminate the need to reflect another change in accounting policy later. IFRS 9 is required to be adopted for annual periods beginning on or after January 1, 2015.
- The company has not provided a reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS because there are no reconciling items.

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

### 5. FINANCIAL INSTRUMENTS

The company has various financial instruments including accounts receivable, cash and cash equivalents, revolving bank loans, term bank loans, and trade and other payables. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Accounts receivable and all financial liabilities are carried at amortized cost.

IFRS establishes a fair value hierarchy that requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The company primarily applies the market approach for recurring fair value measurements. The section describes three input levels that may be used to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents are measured using level 1 inputs. Trade and other receivables, revolving bank loans, and trade and other payables are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of the term loans approximates the carrying value because the interest rates are at fluctuating market rates.

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Accounts receivable are the result of sales to a relatively wide customer base, primarily in North America. The company only deals with customers that it considers creditworthy. At March 31, 2012, \$8,363 (2011 – \$25,094) of accounts receivable were between 31 and 60 days past due and \$3,392 (2011 – \$9,007) were more than 60 days past due. The company does not consider these accounts impaired based on a review of the debtors' operations and subsequent payments. During the year ended March 31, 2012, the company wrote off accounts receivable of \$5,367 (2011 – \$1,211).

The company's revolving bank loans and term bank loans are at interest rates that fluctuate with market interest rates. At the levels of indebtedness at March 31, 2012, a 1% increase or decrease in the annual rate of interest would cause interest expense to increase or decrease and operating cash flows to decrease or increase, respectively, by \$5,548 per year.

Portions of the company's cash, trade and other receivables and trade and other payables are denominated in US dollars; accordingly, the company is exposed to fluctuations in the US/Cdn dollar exchange rates. While the amounts of exposure change on a daily basis, the company generally has more US dollar financial assets than US dollar liabilities. Over the past year, the exposure ranged from US\$32,000 to US\$220,000 and averaged approximately US\$142,000 (calculated on a quarterly basis) and, at March 31, 2012, was \$220,000. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$0.99 to Cdn\$0.98) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn\$2,200 on an exposure of US\$220,000. During the year ended March 31, 2012, the company realized foreign exchange gains of \$4,005 (2011 – losses of \$6,579). The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

#### 6. PLANT AND EQUIPMENT

	Factory equipment \$	Leasehold improvements \$	Office equipment \$	Deposits on equipment under construction \$	Total \$
<b>At April 1, 2010</b>					
Cost	4,349,090	41,459	96,033	-	4,486,582
Accumulated depreciation	(1,846,194)	(36,774)	(82,537)	-	(1,965,505)
Net book value	2,502,896	4,685	13,496	-	2,521,077
Additions	104,504	3,839	8,797	86,126	203,266
Disposals – cost	(2,500)	-	(4,746)	-	(7,246)
Disposals – accumulated depreciation	2,500	-	4,746	-	7,246
Depreciation	(222,131)	(1,213)	(6,271)	-	(229,616)
<b>At March 31, 2011</b>					
Cost	4,451,094	45,298	100,084	86,126	4,682,602
Accumulated depreciation	(2,065,825)	(37,987)	(84,062)	-	(2,187,874)
Net book value	2,385,269	7,311	16,022	86,126	2,494,728
Additions (deposits applied)	536,774	-	3,431	(86,126)	454,079
Disposals – cost	(80,792)	-	(2,915)	-	(83,707)
Disposals – accumulated depreciation	80,792	-	2,915	-	83,707
Depreciation	(250,314)	(1,443)	(6,971)	-	(258,728)
<b>At March 31, 2012</b>					
Cost	4,907,076	45,298	100,600	-	5,052,974
Accumulated depreciation	(2,235,347)	(39,430)	(88,118)	-	(2,362,895)
Net book value	2,671,729	5,868	12,482	-	2,690,079

Included in factory equipment is equipment costing \$166,331 (2011 – \$276,006) that was under construction or refurbishment or had not otherwise been made available for use at year-end.

#### 7. INVENTORY

	2012 \$	2011 \$
Raw materials	726,816	790,259
Finished goods	372,436	219,891
Total inventory	1,099,252	1,010,150

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2012 and 2011

(Canadian Dollars)

#### 8. SHARE CAPITAL

##### Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

<b>Issued</b>	<u>Number</u>	<u>Ascribed value</u> \$
Common shares	11,063,800	2,099,703
Warrants	1,060,000	32,364

Each warrant entitled the holder to purchase one common share at \$0.125 per share. The warrants expired on July 17, 2012 without being exercised.

##### Stock Option Plan

The company has adopted a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 2,000,000. Options granted under the plan generally have a term of three to five years and vest as to 12-1/2% or 25% upon granting and 12-1/2% every three months after that. The option exercise price is generally set as the market price at the time of granting; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange.

No stock options were granted, vested, exercised or forfeited during the years ended March 31, 2012 and 2011.

The options outstanding at March 31, 2012 were granted during the year ended March 31, 2008, became fully vested during the year ended March 31, 2010 and expire as follows:

Expiry date	Total number of shares subject to option	Weighted average remaining contractual life	Weighted average exercise price of all options	Number of shares subject to options that are vested	Weighted average exercise price of vested options
March 12, 2013	800,000	0.9 years	\$0.10	800,000	\$0.10

##### Shareholder Rights Plan

The company has adopted a shareholder rights plan (the "Plan") to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the close of the company's annual general meeting in 2012, subject to further renewal. The Plan, in effect, allows holders of common shares to purchase additional common shares from the company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the company in a transaction that is not a Permitted Bid under the Plan. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.



**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2012 and 2011**  
**(Canadian Dollars)**

**9. INCOME TAX**

The components of the company's deferred income tax liability are the tax effects of temporary differences in the tax and accounting bases of:

	2012	2011
	\$	\$
Depreciation of plant and equipment	488,027	470,855
Non-capital losses carried forward	-	(26,495)
Other tax deductions carried forward	(1,944)	(2,934)
Total future income tax liability	<u>486,083</u>	<u>441,426</u>

The income tax expense shown on the consolidated statement of comprehensive income differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to profit before tax as follows:

	2012	2011
Combined statutory rate	26.13%	28.01%
	\$	\$
Income tax expense based on the statutory rates	44,100	11,042
Tax effect of expenses that are not deductible for income tax purposes	2,570	2,447
Effect of reductions in the statutory tax rates	(2,013)	(3,078)
Income tax expense for the year	<u>44,657</u>	<u>10,411</u>

**10. REVOLVING BANK LOANS**

The company has a \$1,000,000 revolving bank loan facility. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of U.S. accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$700,000 are not included in the calculation. The loan outstanding under the facility bears interest at bank prime rate plus 0.75% per annum and is payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

The company has covenanted with the bank to maintain its consolidated ratio of current assets to current liabilities at 1.10:1 or higher and its consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 1.50 or lower.

**11. TERM BANK LOANS**

During the year ended March 31, 2012, the company received a \$200,000 non-revolving term loan. The loan bears interest at bank prime plus 1%, payable monthly. The loan is re-payable in monthly principal instalments of \$5,556 and the final payment of the balance of principal and interest is due November 30, 2012. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2012 and 2011**  
**(Canadian Dollars)**

**12. COST OF SALES**

	2012	2011
	\$	\$
Materials	3,189,726	3,336,987
Production labour	492,228	512,835
Factory overhead labour	257,186	284,285
Variable overhead	153,867	146,876
Fixed overhead	442,116	435,085
Depreciation	251,758	223,345
	<u>4,786,881</u>	<u>4,939,413</u>

**13. SELLING AND DISTRIBUTION EXPENSES**

	2012	2011
	\$	\$
Shipping	423,243	419,074
Wages, commissions and other employee benefits	101,436	96,942
Other	20,901	21,443
	<u>545,580</u>	<u>537,459</u>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	2012	2011
	\$	\$
Administration and office	129,072	120,305
Corporate promotion	5,891	4,423
Professional fees	48,868	46,564
Salaries and other employee benefits	379,058	376,230
	<u>562,889</u>	<u>547,522</u>

**15. EARNINGS PER SHARE**

The potential effect on earnings per share of the warrants and stock options outstanding during the years ended March 31, 2012 and 2011 was anti-dilutive; accordingly, they were excluded from the calculation of diluted earnings per share. If the average market price exceeds the exercise price of the warrants and stock options, the warrants and stock options will have a potential dilutive effect on earnings per share.

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

During the year ended March 31, 2012, trade and other payables related to the purchase of plant and equipment decreased by \$8,090 (2011 – \$6,726).

**17. SEGMENTED INFORMATION**

The company operates in one industry, the disposable paper and polyethylene industry. The company's plant and equipment are located in Canada. During the year ended March 31, 2012, the company had domestic sales in Canada of \$4,675,324 (2011 – \$4,678,051) and export sales to the United States of \$1,403,140 (2011 – \$1,407,299). During the year ended March 31, 2012, the company had sales to two customers of \$1,709,329 (2011 – \$1,484,441) each of whom represented more than 10% of sales.

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2012 and 2011**  
**(Canadian Dollars)**

**18. LEASE COMMITMENTS**

The company has entered into operating lease agreements for premises which expire in June 2014. Future minimum lease payments are as follows:

	\$
Year ending March 31, 2013	314,560
2014	316,041
2015	79,010

Operating costs and property taxes for the premises, currently estimated at \$116,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2012, the company expensed \$310,118 (2011 – \$310,118) in minimum lease payments, and \$116,872 (2011 – \$107,947) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

**19. RELATED PARTY TRANSACTIONS**

During the year ended March 31, 2012, the company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, taxes and perquisites), of \$332,304 (2011 – \$330,360) to directors and officers of the company and incurred \$5,866 (2011 – \$8,421) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. At March 31, 2012, trade and other payables include \$1,444 (2011 – \$1,233) due to the firm.

**20. CAPITAL DISCLOSURES**

The company manages share capital, warrants, stock options and retained earnings as capital. The company's objectives when managing capital are: to safeguard the ability of the company to continue as a going concern; to permit the company to continue expanding its operations, to the extent compatible and economically viable expansion opportunities are available; and to maximize shareholder returns. The company employs policies and processes for managing capital: to ensure that the covenants and terms under its bank indebtedness and term loans are complied with; to ensure that adequate prices are received for the company's production to maximize operating cash flows; and to maximize shareholder returns.