



# ***WESTBOND ENTERPRISES CORPORATION***

## ***2015 Annual Report***

**WestBond Enterprises Corporation  
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# **WestBond Enterprises Corporation**

## **Management Discussion and Analysis**

**dated July 28, 2015, to accompany the consolidated financial statements for the year ended March 31, 2015**

***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, foreign currency 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). Soon we will be expanding into a fourth product line, table top products, which include high quality air laid napkins.

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.

A full range of air laid napkins (table top) will be sold to major food service distributors in Canada and the United States. We have already started selling these high quality air laid products.

Our plant comprises a variety of equipment that enables us to provide a comprehensive range of products for each of our product lines and equipment that allows us to utilize a wide variety of paper supplies, enabling us to take advantage of good raw material pricing opportunities. We also have equipment that will allow us to produce facial tissue and other air laid products. This tissue line will be brought into production during the 2016 fiscal year.

We have purchased and are now installing a binder bonded air laid paper making machine. The machine is expected to produce up to 150 metric tons of air laid paper per month at a significantly lower cost than our current purchase prices. Initially, we expect to use 30% - 40% of the production from the machine for our own finished products and sell the surplus production. Our goal is to expand the market for our own air laid products and ultimately use all of the production from the machine for our own finished products.

**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.

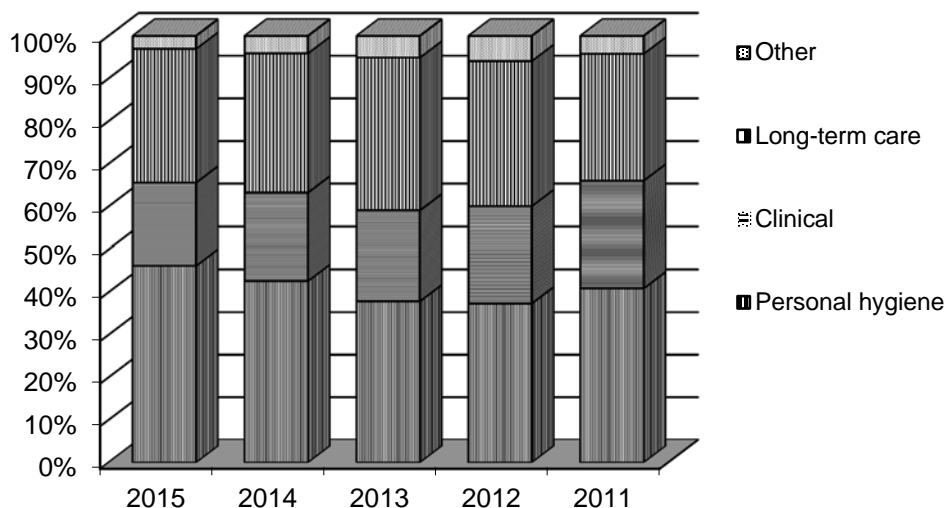
**Long-Term Care Products** – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes, mitts and underlays. All products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

**Table Top Products** – This is a new product line for us and includes high quality air laid napkins. These napkins replace costly linen napkins and can also out-perform conventional paper napkins, reducing operating costs of many restaurants. These products are sold through major food service distributors. The addition of our own air laid paper making machine will allow us to grow this business substantially.

These four 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, 2011 through 2015. Table top products are included with “Other” sales in the chart.



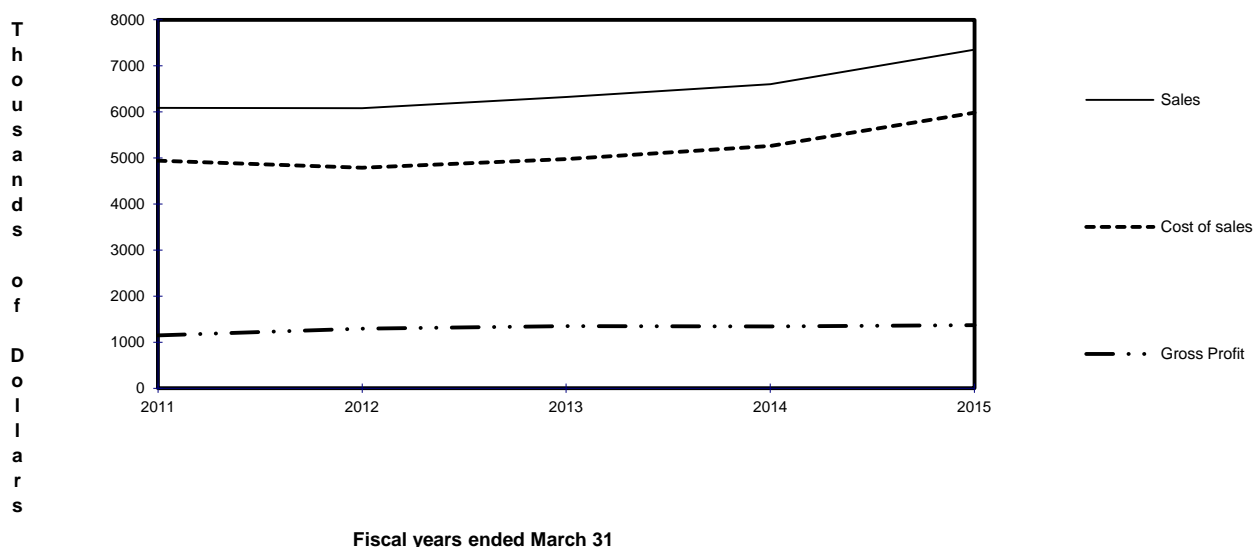
## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2015 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.

We incurred a loss of \$431,223 for the year ended March 31, 2015 compared to a profit of \$46,655 for the year ended March 31, 2014. Our gross profit margin realized during 2015 was 18.6%, compared to 20.3% for 2014, 21.4% for 2013 and 21.2% for 2012. Our gross profit margins were lower due to unfavourable raw materials costs and usage variances. Sales volume growth is the result of weakened competition from US and Chinese products. The higher value of the US dollar makes their product more expensive in Canada, which has improved our sales. Additionally, our sales into the US market, which are priced in US dollars, result in higher Canadian dollar margins.

Three non-recurring expenses impacted the loss for 2015: \$172,209 in relocation expenses, \$96,200 in stock option expense and \$264,998 in losses on forward currency exchange contracts. We relocated our factory, warehouse and offices during the 2015 fiscal year into one facility that is 20% larger than our previous two facilities combined. No stock options had been granted since 2008. We entered into the forward currency exchange contracts in order to hedge our euro denominated commitments to purchase equipment. The exchange rates were changing rapidly and we wanted to ensure that the exchange rate did not cause the commitments to exceed our available financing. While the contracts ensured that our commitments were successfully economically hedged at the forward rates, the contracts did not meet the overly stringent accounting standards for hedge accounting, which would have added the loss to the cost of the equipment.

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).

Operating Results	Years ended March 31,					
	2015		2014		2013	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	7,349,416	100.0	6,599,440	100.0	6,324,479	100.0
Cost of sales	5,981,539	81.4	5,256,808	79.7	4,972,877	78.6
Gross profit	1,367,877	18.6	1,342,632	20.3	1,351,602	21.4
Selling and distribution expenses	664,592	9.0	631,513	9.6	594,695	9.4
General and administrative expenses	699,283	9.5	589,037	8.9	594,722	9.4
Other expenses and (income)	456,102	2.6	26,886	0.4	(1,526)	0.0
(Loss) profit before tax	(452,100)	-2.5	95,195	1.4	163,711	2.6
Income tax (recovery) expense	(20,877)	-0.3	48,541	0.7	43,049	0.7
(Loss) profit and comprehensive income	(431,223)	-2.2	46,655	0.7	120,662	1.9
(Loss) earnings per share, basic and diluted	(0.013)		0.002		0.011	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2015	2014	2013
	\$	\$	\$
Non-Current Assets	8,052,867	2,507,459	2,588,852
Current Assets	2,031,030	3,596,274	2,118,489
Total assets	10,083,897	6,166,733	4,707,341
Non-Current Liabilities	3,756,939	533,722	513,428
Current liabilities	1,669,762	673,192	1,031,871
Shareholders' equity	4,657,196	4,959,819	3,162,042

### Sales

Sales were \$7,349,416 for the year ended March 31, 2015, an 11.4% increase over the year ended March 31, 2014. The table below summarizes the sales of the Company for the last five fiscal years.

	2015	2014	2013	2012	2011
	\$	\$	\$	\$	\$
Personal hygiene products	3,396,874	2,815,772	2,396,857	2,272,271	2,490,393
Clinical products	1,425,965	1,361,185	1,342,068	1,380,663	1,530,226
Long-term care products	2,303,404	2,152,750	2,264,003	2,067,114	1,809,194
Other products	223,173	269,733	321,551	358,415	255,537
Total sales	7,349,416	6,599,440	6,324,479	6,078,464	6,085,350
Change over previous year	11.4%	4.3%	4.0%	-0.1%	-1.8%

Sales increased in all product categories, except "other products". The increase was most pronounced in personal hygiene products which was caused by strong demand from the United States and higher US dollar exchange rates. The long-term care market continues strong due to the aging population. Approximately 34% of our sales in 2015 were priced in US dollars, compared with 27% for 2014, 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.

	2015		2014		2013		2012		2011	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	4,182,552	56.9	3,592,517	54.4	3,326,153	52.6	3,189,726	52.5	3,336,987	54.8
Production labour	588,880	8.0	493,246	7.5	458,586	7.3	492,228	8.1	512,835	8.4
Factory overhead										
labour	281,780	3.8	252,405	3.8	262,869	4.2	257,186	4.2	284,285	4.7
Variable overhead	210,670	2.8	142,759	2.2	160,293	2.5	153,867	2.5	146,876	2.4
Fixed overhead	385,463	5.2	452,187	6.9	451,536	7.1	442,116	7.3	435,085	7.2
Depreciation	332,194	4.5	323,694	4.9	313,440	4.9	251,758	4.2	223,345	3.7
<b>Total cost of sales</b>	<b>5,981,539</b>	<b>81.4</b>	<b>5,256,808</b>	<b>79.7</b>	<b>4,972,877</b>	<b>78.6</b>	<b>4,786,881</b>	<b>78.8</b>	<b>4,939,413</b>	<b>81.2</b>

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. All of our products have a high materials component and a low labour component.

Paper yields, the amount of product that a certain weight of paper produces, were unfavourable during the 2015 fiscal year, increasing direct materials costs by a factor of 1.6% of sales. Paper prices were adversely affected by the increased US dollar exchange rate, as most of our paper supply is purchased in US dollars, however lower US dollar prices for most paper grades offset higher prices paid for other grades and the US exchange rate effect. The rest of the increase in materials cost as a percentage of sales during 2015 is due to the product mix. Most of the increase in sales during 2015 was in industrial hygiene products, which have a lower margin than most of our other products.

Paper prices increased during the 2015 and 2014 fiscal years and were relatively stable in our 2013 and 2012 fiscal years, 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%.

Production labour in cost of sales averaged 8.0% of sales during 2015 which is a slight increase from 7.5% in 2014 but well within our normal operating range. 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. If we are unable to hire sufficient machine operators, we will not be able to produce additional products for sale.

Factory overhead labour during 2015, as a percentage of sales, was relatively stable compared to 2014. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2015 is relatively high due to increases in maintenance parts, waste disposal and electricity. Waste disposal was affected by adverse paper yields (which results in more waste) and the costs to dispose of old paper inventory that had been written off years ago. Our new plant is larger than our old plant and warehouse, which correspondingly uses more electricity for lighting. Additionally, we had lighting costs at both our old plant and new plant for three months during the move.

Fixed overhead is \$66,724 lower during 2015 than 2014 because we terminated the lease on our warehouse at the end of June 2014 and we received a refund for lease operating expenses at our previous factory that had been overcharged (lease operating expenses are billed monthly at estimated costs for the year and adjusted annually to reflect actual costs). Higher rent added \$8,369 to fixed overhead in 2013 and \$7,970 in 2012. 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.

During our 2013 fiscal year, two of our paper suppliers closed local paper machines that supplied us and we now import more of our paper from the United States and China, which increases our exposure to delivery delays and to fluctuations in US dollar exchange rates. We expanded our range of non-airlaid paper suppliers to try and ensure an uninterrupted supply of those paper grades as the inability to obtain paper at our current input prices can result in lost product sales or in higher materials costs.

We have purchased and are now installing a binder bonded air laid paper making machine. The machine is expected to produce up to 150 metric tons of air laid paper per month at a significantly lower cost than our current purchase prices. Initially, we expect to use 30% - 40% of the production from the machine for

our own finished products and sell the surplus production. This will eliminate our paper purchases from China and reduce our purchases from the eastern United States. We anticipate the total cost of the machine, including installation, will be around \$6,750,000 and that it will be in full operation by August 2015. The machine will have a significant effect on our cost of sales. Raw materials purchase costs will decrease substantially, production labour, factory overhead labour, gas and electricity consumption and depreciation will all increase. The unit cost to make the paper (including overhead allocations) will be significantly lower than our current unit purchase cost, which will improve our margins. Sales of the airlaid paper produced that we do not use for our own finished products will provide additional margins.

### ***Selling Expenses***

Selling expenses are lower, as a percentage of sales, in 2015 than in 2014 because of lower sales commissions. Shipping rates were relatively stable.

### ***General and Administrative Expenses***

General and administrative costs were higher in 2015 than in 2014. Stationery and other supplies for the new offices and computer maintenance caused office expenses to increase. Professional fees were lower because the 2014 fees were unusually high. Additional office staff, higher rates of pay and a one-time stock option expense of \$88,985 caused salaries and employee benefits to increase. We granted the stock options as fully vested at granting because no other options had been granted since 2008.

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, 2015, trade and other receivables include \$18,783 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 2015 we had bad debt losses of \$2,566 compared to \$414 for 2014.

During the year ended March 31, 2015, professional fees include \$9,949 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, 2015, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$429,787 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$409,114 of the compensation is included in general and administrative salaries and employee benefits, \$15,757 is included in administration and office and \$4,916 is included in other selling and distribution expenses.

### ***Other Income and Expenses***

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\$137,000 net assets to US\$70,000 net liabilities and averaged approximately US\$48,000 net assets (calculated on a monthly basis) and at March 31, 2015 was US\$70,000 net liabilities. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.26 to Cdn\$1.27) 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\$700 on an exposure of US\$70,000. During the year ended March 31, 2015 we realized a foreign exchange gain of \$48 compared to a loss of \$20,720 in 2014. 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.

We incurred a loss of \$264,998 on forward currency exchange contracts during the year ended March 31, 2015. In July 2014 we entered into forward exchange contracts to purchase €2,317,430 at a weighted average exchange rate of €1.00 = Cdn\$1.4804 in order to hedge some of our euro denominated commitments to purchase equipment. The exchange rates were changing rapidly and we wanted to ensure that the exchange rate did not cause the commitments to exceed our available financing. While the contracts ensured that our commitments were successfully economically hedged at the forward rates, the contracts did not meet the overly stringent accounting standards for hedge accounting, which would have added the loss to the cost of the equipment. The loss is treated as a capital loss for income tax

purposes, only half of which is allowable as a loss that can only be applied to capital gains. Due to the nature of our business, it is not likely that we will generate capital gains to use against this loss so we have provided a full allowance to reduce the potential value to zero.

Relocation expenses incurred to move our offices and equipment to our new premises totalled \$172,209 for the year ended March 31, 2015. Trucking costs and moving equipment rentals of \$50,989 and electrician and mechanic labour of \$121,220 to disconnect, disassemble, reassemble and reconnect the equipment comprise the expense.

We chose to dispose of some equipment rather than move it to our new premises and realized a loss on disposal of \$11,253.

Interest on our bank indebtedness fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2015, a 1% increase in the prime rate of interest would increase total interest expense by \$34,251 per year.

## **Liquidity and Capital Resources**

Our operating cash flows were \$319,252 during the year ended March 31, 2015, an average of \$26,604 per month, compared to \$33,831 per month during 2014, before accounting for fluctuations in non-cash working capital. At March 31, 2015, we had cash of \$96,410 and working capital of \$361,268 compared to cash of \$1,638,407 and working capital of \$2,923,082 at March 31, 2014. The reduction in cash and working capital is due to our investment in new equipment during 2015.

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

We have a revolving bank loan facility of \$1,000,000, of which \$358,118 was used at March 31, 2015. 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 \$300,000 and accounts payable by an additional \$300,000. 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 expect the binder bonded air laid paper making machine will cost a total of approximately \$6,750,000, of which \$5,314,748 has been incurred to March 31, 2015. We financed \$1,750,000 of the cost from the proceeds of share issuances made during the year ended March 31, 2014, \$3,180,078 from the term loan facility and the balance from operating cash flows and accounts payable. We will finance the remaining purchase and installation costs with the term loan facility, operating cash flow and our revolving line of credit.

We have a \$5,000,000 term loan credit facility for the purchase of the binder bonded air laid paper making machine. Loans under the facility are to be fully drawn down by September 30, 2015. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing 12 months after final draw with a final payment of the balance of principal 24 months after final draw. Interest is payable monthly at bank prime plus 1.5% per annum. 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. During the year ended March 31, 2015 the company drew down \$290,653 of the loan facility. At March 31, 2015, \$2,889,425 in unpaid equipment purchases were supported by letters of credit issued under the term loan facility, which were settled with draws under the term loan facility after March 31, 2015. Equipment purchase commitments outstanding at March 31, 2015 in the aggregate amount of €432,435 (equivalent to \$589,106 at the March 31, 2015 exchange rate of €1.00 = Cdn\$1.3623) were supported by letters of credit issued under the term loan facility.

The company had additional equipment purchase commitments outstanding during the year ended March 31, 2015 denominated in European euros aggregating €2,317,430 against which it had entered into forward exchange contracts that effectively fixed the exchange rate at an average of €1.00 = Cdn\$1.4804. €196,440 of the equipment was purchased and the related forward exchange contract was settled and the remaining €2,120,990 of the equipment was purchased, however the related forward



exchange contracts and letters of credit issued under the term loan facility were settled after March 31, 2015. Subsequent to March 31, 2015 the company entered into forward exchange contracts that effectively fixed the exchange rate on €417,324 of the remaining commitments at a weighted average of €1.00 = Cdn\$1.4122.

***New Accounting Policies***

There are no new accounting policies that are effective for our current fiscal year that are expected to have a material effect on our consolidated financial statements. We do not expect to adopt any new accounting policies during the year ending March 31, 2016 that will have a significant effect on our financial statements.

## Summary of Quarterly Results (Unaudited)

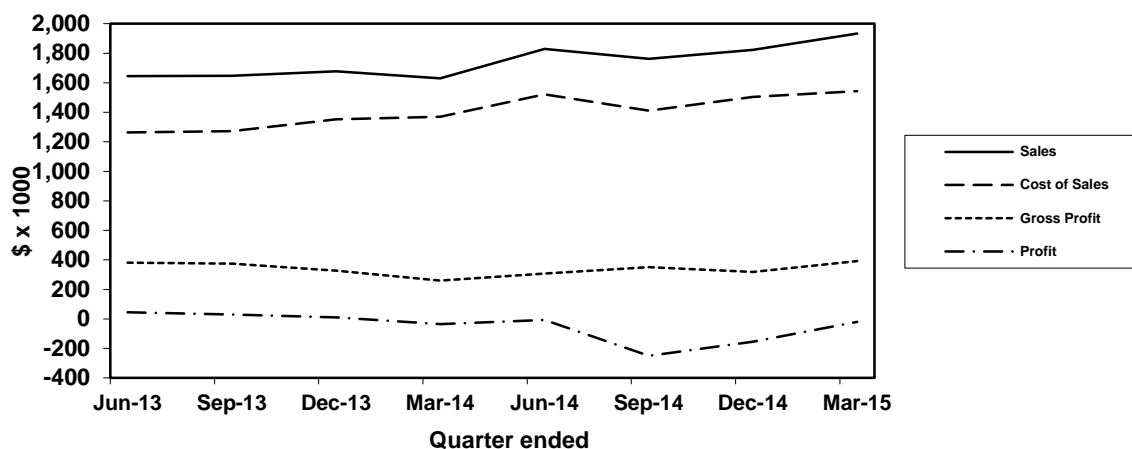
The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards. The quarters ended September 30 and December 31, 2014 have been restated to reflect that the forward foreign currency contracts did not qualify for hedge accounting.

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013
Sales	1,934	1,823	1,762	1,830	1,629	1,678	1,647	1,644
Cost of sales	1,543	1,505	1,411	1,522	1,369	1,352	1,272	1,263
Gross profit	391	318	351	308	260	326	375	381
Selling and distribution expenses	153	169	163	179	146	157	168	161
General and administrative expenses	156	245	160	138	154	149	157	129
Operating profit (loss)	82	(96)	(28)	(9)	(40)	20	50	91
Other expenses (income)	89	56	311	1	7	7	9	5
Profit (loss) before tax	(7)	(152)	(283)	(10)	(47)	13	41	86
Income tax expense (recovery)	12	3	(34)	(2)	(11)	4	12	43
(Loss) profit	(19)	(155)	(249)	(8)	(36)	9	29	43
(Loss) earnings per share, basic and diluted - Cdn\$	(0.001)	(0.005)	(0.007)	(0.000)	(0.001)	0.000	0.002	0.004

Sales - % change over previous quarter	6.1	3.5	-3.7	12.3	-2.8	1.9	0.1	4.1
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### Costs, expenses and net income - % of Sales

Cost of sales	79.8	82.6	80.1	83.2	84.0	80.6	77.2	76.8
Selling and distribution expenses	7.9	9.3	9.3	9.8	8.9	9.4	10.2	9.8
General and administrative expenses	8.1	13.4	9.1	7.5	9.4	8.9	9.5	7.9
Other expenses (income)	4.6	3.0	17.6	0.0	0.5	0.4	0.6	0.3
Income tax expense	0.6	0.2	-1.9	-0.1	-0.7	0.2	0.7	2.6
Profit (loss)	-1.0	-8.5	-14.2	-0.4	-2.1	0.5	1.8	2.6



The fluctuations in sales are, for the most part, due to changes in volume. Sales are also affected by the value of the US dollar as approximately 35% of our sales are priced in US dollars. Sales were 6.1% higher in the quarter ended March 31, 2015 than in the previous quarter, ended December 31, 2014 and 18.6% higher than in the quarter ended March 31, 2014.

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 decrease in cost of sales, as a percentage of sales, during the quarter ended March 31, 2015 is due to favourable prices and usage of raw materials. Selling and distribution expenses are improved as the increase in sales was mainly to customers relatively close to British Columbia and to fewer commissions paid.

## 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 28, 2015</u>
Authorized common shares	Unlimited
Issued common shares	33,665,800
Shares issuable on exercise of outstanding stock options	2,000,000
Shares available for future stock option grants	Nil

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 2016, subject to further renewal or amendment. 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 28, 2015

## **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, 2015 and March 31, 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 audit 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.

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

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**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, 2015 and March 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

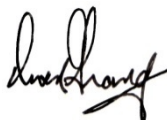
**WestBond Enterprises Corporation**  
**Consolidated Statements of Financial Position**  
(Canadian Dollars)

		March 31 2015 \$	March 31 2014 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment	5, 18	8,022,167	2,495,144
Lease deposits		18,012	58,456
Deferred tax asset	8	12,688	16,859
		8,052,867	2,507,459
<b>Current Assets</b>			
Inventory	6	886,275	1,189,989
Trade and other receivables		982,370	740,645
Income tax recoverable		37,812	-
Prepaid expenses		28,163	27,233
Cash and cash equivalents		96,410	1,638,407
		2,031,030	3,596,274
<b>Total Assets</b>		10,083,897	6,166,733
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Common shares issued and outstanding	7	3,883,225	3,839,080
Warrants	7	-	11,745
Stock options	7	96,200	-
Contributed surplus		286,874	286,874
Retained earnings		390,897	822,120
<b>Equity attributable to common shareholders</b>		4,657,196	4,959,819
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Term bank loans	10	290,653	-
Liabilities supported by term loan commitments	10	2,889,425	-
Deferred operating lease liability		52,505	-
Deferred tax liability	8	524,356	533,722
		3,756,939	533,722
<b>Current Liabilities</b>			
Revolving bank loans	9	358,118	-
Term bank loans	10	-	44,432
Unrealized loss on forward currency exchange contracts		190,256	-
Trade and other payables	11	1,121,388	612,019
Income tax payable		-	16,741
		1,669,762	673,192
<b>Total Liabilities</b>		5,426,701	1,206,914
<b>Total Equity and Liabilities</b>		10,083,897	6,166,733
<b>Commitments</b>	18		

**APPROVED BY THE BOARD OF DIRECTORS**



Director



Director

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

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

	Notes	<u>Year ended March 31</u>	
		<u>2015</u>	<u>2014</u>
		\$	\$
<b>Sales</b>		7,349,416	6,599,440
<b>Cost of sales</b>	12	<u>5,981,539</u>	<u>5,256,808</u>
<b>Gross Profit</b>		1,367,877	1,342,632
<b>Selling and distribution expenses</b>	13	664,592	631,513
<b>General and administrative expenses</b>	14	<u>699,283</u>	<u>589,037</u>
<b>Operating Profit</b>		4,002	122,082
<b>Foreign exchange (gain) loss</b>		(48)	20,720
<b>Loss on forward currency exchange contracts</b>		264,998	-
<b>Loss on disposal of equipment</b>		11,253	-
<b>Relocation expenses</b>		172,209	-
<b>Interest expense</b>		<u>7,690</u>	<u>6,166</u>
<b>(Loss) Profit Before Tax</b>		(452,100)	95,196
<b>Income tax (recovery) expense</b>	8	<u>(20,877)</u>	<u>48,541</u>
<b>(Loss) Profit and Comprehensive (Loss) Income</b>		<u>(431,223)</u>	<u>46,655</u>
<b>Weighted average shares outstanding</b>		<u>33,476,060</u>	<u>21,270,466</u>
<b>(Loss) Earnings per share, basic</b>		<u>(0.013)</u>	<u>0.002</u>
<b>Dilutive effect of warrants and options outstanding</b>	15	-	57,271
<b>Fully diluted weighted average shares outstanding</b>		<u>33,476,060</u>	<u>21,327,737</u>
<b>(Loss) Earnings per share, fully diluted</b>		<u>(0.013)</u>	<u>0.002</u>

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

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

	Common Shares	Warrants	Stock Options	Contributed Surplus	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$
<b>Balance as at March 31, 2013</b>	2,099,703	-	-	286,874	775,465	3,162,042
<b>Shares issued for cash</b>	1,810,230	-	-	-	-	1,810,230
<b>Share Issue Costs</b>	(70,853)	11,745	-	-	-	(59,108)
<b>Profit for the year</b>	-	-	-	-	46,655	46,655
<b>Balance as at March 31, 2014</b>	3,839,080	11,745	-	286,874	822,120	4,959,819
<b>Shares issued for cash on the exercise of warrants</b>	44,145	(11,745)	-	-	-	32,400
<b>Stock options granted</b>	-	-	96,200	-	-	96,200
<b>Loss for the year</b>	-	-	-	-	(431,223)	( 431,223)
<b>Balance as at March 31, 2015</b>	3,883,225	-	96,200	286,874	390,897	4,657,196

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



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

	Notes	Year ended March 31	
		2015	2014
		\$	\$
<b>Operating Activities</b>			
(Loss) Profit		( 431,223)	46,655
Adjustments to reconcile (loss) profit to cash flows from operating activities			
- depreciation		344,069	331,429
- loss on disposal of equipment		11,253	-
- stock option expense		96,200	-
- lease deposits applied		40,444	-
- deferred operating lease liability		52,505	-
- loss on forward foreign currency exchange contracts		264,998	-
- interest expense		7,690	6,166
- interest paid		(6,936)	(6,512)
- income tax (recovery) expense		(20,877)	48,541
- income tax paid		(38,871)	(20,303)
Cash flows from operating activities before changes in non-cash working capital		319,252	405,976
(Increase) decrease in			
- inventory		303,714	7,808
- trade and other receivables		(241,725)	77,536
- prepaid expenses		(930)	(879)
(Decrease) increase in			
- deferred tax liability		-	20,049
- trade and other payables		416,761	(24,169)
Net Cash Flows from Operating Activities		797,072	486,321
<b>Investing Activities</b>			
Purchase of plant and equipment	16	( 2,901,290)	(309,174)
Proceeds from disposal of equipment		1,464	-
Realized loss on forward foreign currency contracts		(75,982)	-
Lease deposits		-	(36,023)
Net Cash Flows from Investing Activities		(2,975,808)	(345,197)
<b>Financing Activities</b>			
Cash received on issuance of common shares		32,400	1,810,230
Share issue costs		-	(79,876)
Term loan proceeds		290,653	-
Repayment of term loans		(44,432)	(72,228)
Increase (decrease) in revolving bank loans		358,118	(237,000)
Net Cash Flows from Financing Activities		636,739	1,421,126
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>		(1,541,997)	1,562,250
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		1,638,407	76,157
<b>Cash and Cash Equivalents at the End of the Year</b>		96,410	1,638,407

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

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2015 and 2014

(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 7403 Progress Way, Unit 101, Delta, British Columbia.

The consolidated financial statements of the company for the year ended March 31, 2015 were authorized for issue by resolution of the directors on July 28, 2015.

### 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 consolidated financial statements have been prepared under the historical cost convention.

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

#### 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.

#### 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	- 2 to 25 years
Leasehold improvements	- 15 to 25 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

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2015 and 2014**

**(Canadian Dollars)**

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

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:

- (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 of 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.

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2015 and 2014**

**(Canadian Dollars)**

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

(iii) **Financial Liabilities at Amortized Cost:** Financial liabilities at amortized cost include trade and other payables and loans. Trade and other payables are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Subsequently, payables are measured at amortized cost using the effective interest method. Loans 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.

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. The company's forward currency exchange contracts are classified in this category.

#### **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 financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

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 after the impairment was recognized.

#### **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. At the directors' discretion, stock options may vest in blocks over a designated period of time. 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.

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2015 and 2014**

**(Canadian Dollars)**

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

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 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.

##### **Leased Premises**

The Company conducts its operations from leased premises. Rent expense is recorded on a straight-line basis over the term of the lease beginning on the possession date. Accordingly, reasonably assured rent escalations are amortized over the lease term, and free-rent periods are allocated to a portion of rent expense. The difference between the recognized rental expense and the total rental payments is reflected on the consolidated balance sheets as a deferred lease liability.

Lease inducements, including cash and the reimbursement of costs incurred by the Company for leasehold improvements, are deferred and accounted for as a reduction of rent expense over the term of the related lease on a straight-line basis.

Other operating payments associated with leased premises are recorded in the period in which the expenses occur.

##### **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 the net realizable value of inventories and the useful lives of plant and equipment.

The company adjusts inventory values so that the carrying value does not exceed the net realizable value. This requires the use of estimates of the inventory that will be sold, the prices at which it will be sold, and an assessment of expected orders from customers. The estimates also reflect changes in products and changes in demand due to obsolescence and competition.

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2015 and 2014**

**(Canadian Dollars)**

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

The company bases the amount of depreciation charged against plant and equipment on estimates of the expected useful life of each component of plant and equipment. The estimates consider normal wear and tear, obsolescence and continued usefulness to the company.

##### **New and Revised Accounting Standards**

There are no new or revised accounting standards that are expected to have a material effect on the company's financial statements.

#### **4. FINANCIAL INSTRUMENTS**

The company has various financial instruments including accounts receivable, cash and cash equivalents, revolving bank loans, term bank loans, trade and other payables and foreign currency hedges. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Foreign currency hedges are carried at fair value. Accounts receivable and all non-hedge 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 and foreign currency hedges 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. Trade and other receivables 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, 2015, \$7,339 (2014 – \$19,223) of trade and other receivables were between 31 and 60 days past due and \$11,444 (2014 – \$9,202) 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, 2015, the company wrote off \$2,566 in trade and other receivables (2014 – \$414). At March 31, 2015 the amount of \$330,723 (2014 – \$144,013) was due from two customers (2014 – one customer), each of whom represented more than 10% and together represented an aggregate of 32% of trade and other receivables (2014 – 19%). One of the customers is part of a large multinational corporate group and is highly creditworthy. The other customer is a long standing customer who consistently makes regular payments.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2015 and 2014

(Canadian Dollars)

#### 4. FINANCIAL INSTRUMENTS (continued)

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, 2015 (including liabilities supported by term loan commitments), a 1% increase or decrease in the annual rate of interest would cause interest expense and interest capitalized to increase or decrease and operating cash flows to decrease or increase, respectively, by \$34,251 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\$137,000 net assets to US\$70,000 net liabilities and averaged approximately US\$48,000 net assets (calculated on a monthly basis) and, at March 31, 2015, was US\$70,000 net liabilities. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.26 to Cdn\$1.27) 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\$700 on an exposure of US\$70,000. During the year ended March 31, 2015, the company realized foreign exchange gains of \$48 (2014 – losses of \$20,720). 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.

The company has equipment purchase commitments outstanding and trade and other payables denominated in European euros aggregating €478,065 at March 31, 2015, accordingly the company is exposed to fluctuations in the Euro/Cdn dollar exchange rates. Each change of 1% (e.g., a change from €1.00 = Cdn\$1.36 to Cdn\$1.37) in the value of the euro in relation to the Cdn dollar results in an increase or decrease in the commitment value of Cdn\$4,781, which will be included in the cost of the equipment purchased. The commitments are expected to be fulfilled by August 2015 or earlier. Subsequent to March 31, 2015 the company entered into forward exchange contracts that effectively fixed the exchange rate on €417,324 of the commitments at a weighted average of €1.00 = Cdn\$1.4122. Any gain or loss on the forward exchange contracts will be reflected in profit or loss.

The company had additional equipment purchase commitments outstanding during the year ended March 31, 2015 denominated in European euros aggregating €2,317,430 against which it had entered into forward exchange contracts that effectively fixed the exchange rate at an average of €1.00 = Cdn\$1.4804. During the year ended March 31, 2015, €196,440 of the equipment was purchased and the related forward exchange contract was settled and the remaining €2,120,990 of the equipment was purchased, however the related forward exchange contracts and letters of credit issued under the term loan facility were settled after March 31, 2015. Losses of \$264,998 on the forward exchange contracts were recognized during the year ended March 31, 2015.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2015 and 2014

(Canadian Dollars)

#### 5. PLANT AND EQUIPMENT

	Factory equipment \$	Leasehold improvements \$	Office equipment \$	Deposits on equipment under construction \$	Total \$
<b>At March 31, 2013</b>					
Cost	5,032,683	45,298	104,037	18,601	5,200,619
Accumulated depreciation	(2,502,820)	(40,869)	(90,511)	-	(2,634,200)
Net book value	2,529,863	4,429	13,526	18,601	2,566,419
Additions (deposits applied)	255,056	-	23,889	(18,601)	260,344
Disposals – cost	(33,537)	-	(30,989)	-	(64,526)
Disposals – accumulated depreciation	29,651	-	30,989	-	60,640
Depreciation	(317,817)	(2,181)	(7,735)	-	(327,733)
<b>At March 31, 2014</b>					
Cost	5,254,202	45,298	96,937	-	5,396,437
Accumulated depreciation	(2,790,986)	(43,050)	(67,257)	-	(2,901,293)
Net book value	2,463,216	2,248	29,680	-	2,495,144
Additions	5,777,062	54,110	52,637	-	5,883,809
Disposals – cost	(158,204)	(40,223)	(20,530)	-	(218,957)
Disposals – accumulated depreciation	145,487	40,223	20,530	-	206,240
Depreciation	(328,456)	(3,737)	(11,876)	-	(344,069)
<b>At March 31, 2015</b>					
Cost	10,873,060	59,185	129,044	-	11,061,289
Accumulated depreciation	(2,973,955)	(6,564)	(58,603)	-	(3,039,122)
Net book value	7,899,105	52,621	70,441	-	8,022,167

Included in factory equipment is equipment costing \$5,513,921 (2014 – \$315,471) that was under construction or refurbishment or had not otherwise been made available for use at year-end.

#### 6. INVENTORY

	2015 \$	2014 \$
Raw materials	596,052	894,970
Finished goods	290,223	295,019
Total inventory	886,275	1,189,989



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**7. SHARE CAPITAL**

**Authorized**

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

<b>Issued</b>	<u>Warrants Issued</u>		<u>Common Shares Issued</u>	
	<u>Number</u>	<u>Ascribed Value</u> \$	<u>Number</u>	<u>Ascribed Value</u> \$
Outstanding at March 31, 2013	-	-	11,063,800	2,099,703
Issued for cash at \$0.08 per share	-	-	18,750,000	1,500,000
Issued for cash at \$0.09 per share	-	-	3,447,000	310,230
Issued for finder's fee	405,000	11,745	-	(11,745)
Share issue costs	-	-	-	(59,108)
Outstanding at March 31, 2014	405,000	11,745	33,260,800	3,839,080
Issued for cash on exercise of warrants at \$0.08 per share	(405,000)	(11,745)	405,000	44,145
Outstanding at March 31, 2015	-	-	33,665,800	3,883,225

The warrants entitled the holder to purchase one common share at \$0.08 per share until September 18, 2014. The fair value ascribed to the warrants was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.26%, a dividend yield of 0%, an expected warrant life of 1 year and a volatility of 49%.

**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 expire after five years. 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.

There were no stock options outstanding at March 31, 2013. No stock options were granted, vested, exercised or forfeited during the year ended March 31, 2014. During the year ended March 31, 2015 stock options were granted to purchase a total of 2,000,000 common shares at \$0.09 per share until December 3, 2019. The options were fully vested on granting. The fair value of \$96,200 ascribed to the stock options was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.3%, a dividend yield of 0%, an expected option life of 5 years and expected volatility of 63%. The expected volatility was estimated using 5 years of historical data. \$7,215 of the fair value has been reflected in factory overhead labour and \$88,985 has been reflected in general and administrative salaries and other employee benefits. The options were outstanding and had a remaining life of 4.7 years at March 31, 2015.

## WESTBOND ENTERPRISES CORPORATION

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#### 7. SHARE CAPITAL (continued)

##### 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 2016, subject to further renewal or amendment. 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.

#### 8. INCOME TAX

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

	2015	2014
	\$	\$
Share issue costs deductible in future periods	12,688	16,859
Allowable capital loss on forward exchange contracts	34,450	-
	47,138	16,859
Valuation allowance	(34,450)	-
Net deferred tax asset	12,688	16,859
Depreciation of plant and equipment	528,454	537,816
Other tax deductions carried forward	(4,098)	(4,094)
Total deferred tax liability	524,356	533,722

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 or loss before tax as follows:

	2015	2014
Combined statutory rate	26.00%	26.00%
	\$	\$
Income tax (recovery) expense based on the statutory rates	( 117,546)	24,751
Tax effect of expenses that are not deductible for income tax purposes	62,219	3,243
Valuation allowance	34,450	-
Effect of increases in the statutory tax rates	-	20,548
Income tax (recovery) expense for the year	(20,877)	48,541
Current portion	(15,682)	28,492
Deferred portion	(5,195)	20,049

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#### 9. 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 1.20:1 or higher and its consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower. Commencing March 2016 the company must maintain its ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:0 or higher.

#### 10. TERM BANK LOANS

During the year ended March 31, 2014 the company negotiated a \$5,000,000 term loan credit facility for the purchase of certain production equipment. Loans under the facility are to be fully drawn down by September 30, 2015. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing 12 months after final draw with a final payment of the balance of principal 24 months after final draw. Interest is payable monthly at bank prime plus 1.5% per annum. 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. During the year ended March 31, 2015 the company drew down \$290,653 of the loan facility. At March 31, 2015, \$2,889,425 in unpaid equipment purchases were supported by letters of credit issued under the term loan facility, which were settled with draws under the term loan facility after March 31, 2015. Equipment purchase commitments outstanding at March 31, 2015 in the aggregate amount of €432,435 (equivalent to \$589,106 at the March 31, 2015 exchange rate of €1.00 = Cdn\$1.3623) were supported by letters of credit issued under the term loan facility.

During the year ended March 31, 2012, the company received a \$200,000 non-revolving term loan. The loan bore interest at bank prime plus 1%, payable monthly. The loan was re-payable in monthly principal instalments of \$5,556 and was fully re-paid during the year ended March 31, 2015. 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 was pledged as collateral.

#### 11. TRADE AND OTHER PAYABLES

	2015	2014
	\$	\$
Payable to suppliers for trade purchases	884,840	457,222
Payable to employees for wages and expenses	140,735	85,077
Payable to governments for withholding and sales taxes	50,854	29,666
Accrued liabilities	44,959	40,054
	<u>1,121,388</u>	<u>612,019</u>

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**12. COST OF SALES**

	2015	2014
	\$	\$
Materials	4,182,552	3,592,517
Production labour	588,880	493,246
Factory overhead labour	281,780	252,405
Variable overhead	210,670	142,759
Fixed overhead	385,463	452,187
Depreciation	332,194	323,694
	<u>5,981,539</u>	<u>5,256,808</u>

**13. SELLING AND DISTRIBUTION EXPENSES**

	2015	2014
	\$	\$
Shipping	552,204	479,783
Wages, commissions and other employee benefits	100,446	135,188
Other	11,942	16,542
	<u>664,592</u>	<u>631,513</u>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	2015	2014
	\$	\$
Administration and office	158,149	138,020
Corporate promotion	9,191	12,445
Professional fees	46,550	77,654
Salaries and other employee benefits	485,393	360,918
	<u>699,283</u>	<u>589,037</u>

**15. EARNINGS PER SHARE**

The potential effect on loss per share of the stock options outstanding during the year ended March 31, 2015 was anti-dilutive; accordingly, they were excluded from the calculation of diluted earnings per share. During periods of loss stock options have an anti-dilutive effect on loss per share.

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

During the year ended March 31, 2015, trade and other payables related to the purchase of plant and equipment increased by \$91,854 (2014 – decreased by \$49,020) and liabilities supported by term loan commitments of \$2,889,425 were incurred for the purchase of equipment. During the year ended March 31, 2014 current income tax savings of \$4,154 and deferred income tax savings of \$16,614 were reflected directly in equity against share issue costs.

## WESTBOND ENTERPRISES CORPORATION

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#### 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, 2015, the company had domestic sales in Canada of \$4,824,411 (2014 – \$4,822,819) and export sales to the United States of \$2,525,005 (2014 – \$1,776,621). During the year ended March 31, 2015, the company had sales to three customers of \$3,140,853 (2014 – three customers of \$2,738,819) each of whom represented more than 10% of sales.

#### 18. COMMITMENTS

During the year ended March 31, 2014 the company entered into an operating lease for premises, commencing October 1, 2014 and ending October 31, 2029. Future minimum lease payments are as follows:

Years ending March 31	\$
2016	282,496
2017 – 2019	299,057
2020	309,810
2021 – 2022	324,865
2023	335,619
2024	350,674
2025	356,050
2026 – 2027	363,578
2028	368,955
2029	376,482
2030	219,615

Operating costs and property taxes for the premises, currently estimated at \$148,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2015 the company expensed \$280,063 (2014 – \$304,574) in minimum lease payments, and \$91,818 (2014 – \$131,804) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

The company has made and settled equipment purchase commitments denominated in European euros as follows:

	€
Outstanding at March 31, 2014	2,749,163
Made during the year	1,146,216
Payments made during the year	(1,326,324)
Equipment purchased during the year against letters of credit settled after March 31, 2015	<u>(2,120,990)</u>
Outstanding at March 31, 2015	<u>448,065</u>

€432,435 of the commitments outstanding at March 31, 2015 are supported by letters of credit issued under the term loan facility (note 10). Subsequent to March 31, 2015 the company entered into forward exchange contracts that effectively fixed the exchange rate on €417,324 of the commitments at a weighted average of €1.00 = Cdn\$1.4122.

## **WESTBOND ENTERPRISES CORPORATION**

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

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#### **19. RELATED PARTY TRANSACTIONS**

During the year ended March 31, 2015:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$429,787 (2014 – \$335,215) to directors and officers of the company; and
- The company incurred \$9,949 (2014 – \$73,354) 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, 2015, trade and other payables include \$1,736 (2014 – \$8,054) due to the firm.

During the year ended March 31, 2014:

- The company issued a total of 8,737,500 common shares for cash at \$0.08 per share and 627,222 common shares for cash at \$0.09 per share to three directors of the company and close members of their families. The shares were issued on the same terms as shares issued to parties not related to the company (note 7);

#### **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.