WESTBOND ENTERPRISES CORPORATION

2019 Annual Report

WestBond Enterprises Corporation
7403 Progress Way, Unit 101
Delta, British Columbia
Canada V4G 1E7

Telephone: 604-940-3939
Fax: 604-940-9161
e-mail: info@westbond.ca

www.westbond.ca

WestBond Enterprises Corporation

Management Discussion and Analysis

dated June 20, 2019, to accompany the consolidated financial statements for the year ended March 31, 2019

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 manufacturer and 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, 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). We are 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 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 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 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 and its territories.

We sell a full range of air laid napkins (table top) to major food service distributors in Canada and the United States. Sales of these high-quality air laid products are expanding quickly.

Our plant equipment enables us to provide a comprehensive range of products for each of our product lines and 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.

We started production on our binder bonded air laid paper making machine in August 2015. The machine can produce air laid paper at a significantly lower cost than current purchase prices. We use 25% - 30% of the production capacity of the machine for our own finished products and are selling production from surplus capacity to other paper converters.

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. Recently, we introduced a premium line of air laid roll towels to the market. 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, 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, 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.

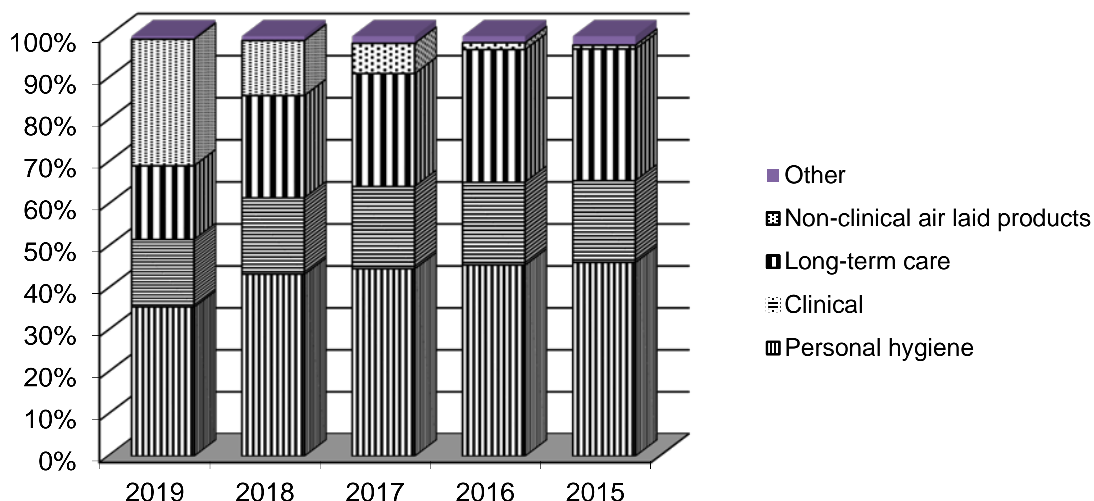
Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes and underlays. All products are made 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 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 is allowing 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.

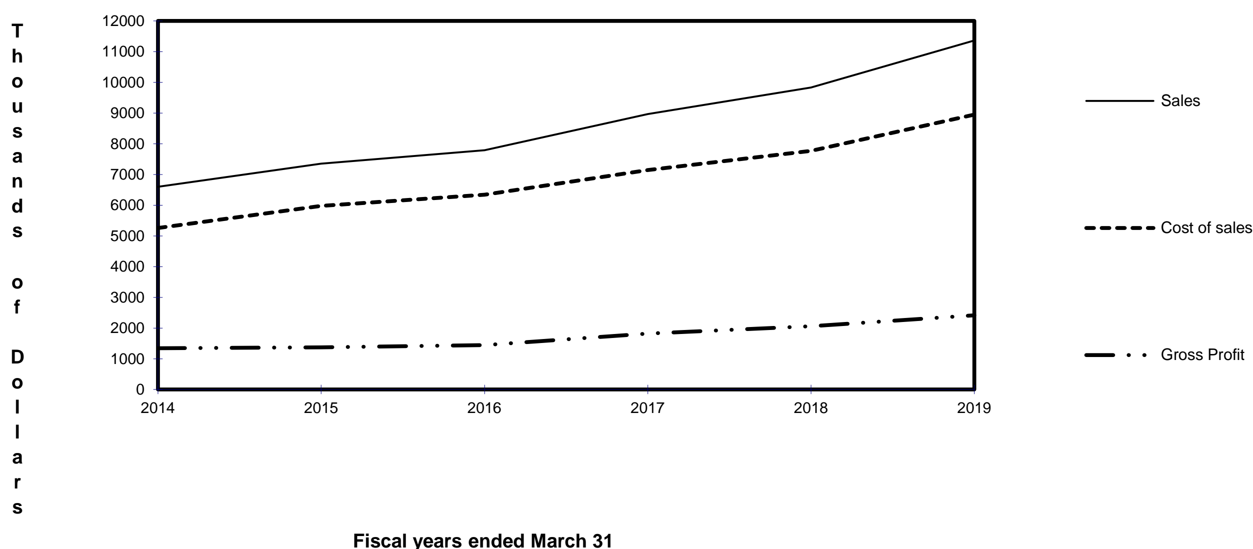
The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2015 through 2019. Table top product sales are included with "Non-clinical air laid products" in the chart.



Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2019 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 realized a profit of $421,264 during the year ended March 31, 2019, compared to $298,088 for the year ended March 31, 2018, an increase of 41%, and $161,080 for the year ended March 31, 2017. Our gross profit margin realized during 2019 was 21.2% compared to 20.9% for 2018 and 20.3% for 2017. Our gross profit margins improved due to the air laid paper machine going into production, which reduced raw materials costs by more than the added overhead and depreciation attributable to the machine. Sales volume growth is the result of the introduction of table top and other non-clinical air laid products, and 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.



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,					
	2019		2018		2017	
	$	% of sales	$	% of sales	$	% of sales
Sales	11,363,162	100.0	9,829,025	100.0	8,969,371	100.0
Cost of sales	8,949,336	78.8	7,772,815	79.1	7,148,766	79.7
Gross profit	2,413,826	21.2	2,056,210	20.9	1,820,605	20.3
Selling and distribution expenses	896,493	7.9	827,880	8.4	733,538	8.2
General and administrative expenses	763,499	6.7	657,658	6.7	652,908	7.3
Other expenses	165,566	1.4	120,968	1.3	212,926	2.3
Profit before tax	588,268	5.2	449,704	4.5	221,233	2.5
Income tax expense	167,004	1.5	151,616	1.5	60,153	0.7
Profit and comprehensive income	421,264	3.7	298,088	3.0	161,080	1.8
Earnings per share, basic	0.013		0.009		0.005	
Earnings per share, fully diluted	0.012		0.009		0.005	
Cash dividends declared per common share	0.0075		nil		nil	

Financial Position	March 31,		
	2019	2018	2017
	$	$	$
Non-Current Assets	7,845,894	8,191,705	8,758,310
Current Assets	3,089,489	2,568,204	2,242,687
Total assets	10,935,383	10,759,909	11,000,997
Non-Current Liabilities	3,602,145	4,093,930	4,609,569
Current liabilities	1,982,962	1,496,737	1,520,274
Shareholders' equity	5,351,137	5,169,242	4,871,154

Sales

Sales were $11,363,162 for the year ended March 31, 2019, a 15.6% increase over the year ended March 31, 2018. The table below summarizes the sales of the Company for the last five fiscal years.

	2019	2018	2017	2016	2015
	$	$	$	$	$
Personal hygiene products	4,046,919	4,266,950	4,010,549	3,550,791	3,396,874
Clinical products	1,823,461	1,784,060	1,752,542	1,531,332	1,425,965
Long-term care products	1,992,870	2,392,582	2,408,946	2,458,934	2,303,404
Non-clinical air laid products	3,419,296	1,283,943	644,409	125,460	65,298
Other products	80,616	101,490	152,925	121,532	157,875
Total sales	11,363,162	9,829,025	8,969,371	7,788,049	7,349,416
Change over previous year	15.6%	9.6%	15.2%	6.0%	11.4%

Sales increased in the non-clinical air laid products and remained relatively flat in clinical and other products. Long-term care products decreased due to the loss of a significant customer, but are otherwise improving.

The clinical and long-term care markets continue to be strong due to the aging population. Approximately 44% of our sales in 2019 were priced in US dollars, compared with 35% for in 2018 and 2017 and 33% in 2016, mainly in the personal hygiene, long-term care and non-clinical air laid products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar. The increase in 2019 is because the majority of our non-clinical air laid sales are to US customers.

Cost of Sales

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

	2019		2018		2017		2016		2015	
	$	% sales	$	% sales	$	% sales	$	% sales	$	% sales
Materials	5,870,295	51.7	4,941,399	50.3	4,320,428	48.2	3,988,802	51.2	4,182,552	56.9
Production labour	975,466	8.6	868,011	8.8	832,463	9.3	769,251	9.9	588,880	8.0
Factory overhead labour	468,567	4.1	433,100	4.4	445,605	5.0	351,201	4.5	281,780	3.8
Variable overhead	436,285	3.8	322,600	3.3	332,179	3.7	267,470	3.4	210,670	2.8
Fixed overhead	522,804	4.6	514,913	5.2	503,010	5.6	494,160	6.3	385,463	5.2
Depreciation	675,919	6.0	692,792	7.1	715,081	7.9	472,784	6.1	332,194	4.5
Total cost of sales	8,949,336	78.8	7,772,815	79.1	7,148,766	79.7	6,343,668	81.4	5,981,539	81.4

Our cost of sales structure has changed since we started production on our air laid paper machine in the 2016 fiscal year. Materials costs are lower and labour, overhead and depreciation are higher. The net effect is a higher gross margin as production from the machine increases.

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

Unfavourable paper yields, the amount of product that a certain weight of paper produces, increased materials costs by a factor of 2.4% of sales in 2019 and 2.7% in 2018, 2.5% in 2017 and 1.6% in 2016. During most of the 2019 fiscal year and part of the 2018 fiscal year we had difficulty purchasing paper in optimum grades, which meant we had to substitute heavier grades than standard, resulting in higher paper usage, and sizes, which caused higher than standard wastage.

Paper prices have increased in all fiscal years since 2006 except in our 2017 fiscal year when they were relatively stable. Paper prices can be volatile, additionally, our paper and pulp purchases are denominated in US dollars, which can fluctuate significantly. 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 8.6% of sales during 2019 compared to 8.8% during 2018, 9.3% during 2017, 9.9% during 2016 and 8.0% in 2015. The decrease since 2016 is from improved operating efficiencies. The increase in 2016 is due to higher wage rates and to additional employees hired to operate the air laid paper machine. 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, it will be difficult to produce additional products for sale.

Factory overhead labour decreased as a percentage of sales during 2019 and 2018 due to increased sales volumes after increasing in 2017 and 2016 to support the new air laid paper machine. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2019, 2017 and 2016 is higher than previous years due to increased electricity and gas to operate the air laid paper machine. Variable overhead incurred in 2018 was lower than 2017 from lower maintenance costs.

Fixed overhead in 2019 includes $10,863 in higher insurance premiums offset by $2,972 in lower rent. Fixed overhead in 2018 includes $10,418 in higher rent and $1,485 in higher insurance premiums over the expense in 2017. Fixed overhead in 2017 includes $12,456 in higher insurance premiums to cover the air laid paper machine, over the expense in 2016 and a $3,607 refund of overbilled lease operating expenses. Fixed overhead in 2016 includes $99,692 in higher rent and $9,005 in higher insurance premiums to cover the air laid paper machine, over the expense in 2015. Increases in depreciation expense are the result of bringing new equipment into use. The slight decreases in 2019 and 2018 are due to revised estimates of the useful lives of some of the equipment.

Fixed overhead and depreciation will change significantly in the next fiscal year due to the adoption of *IFRS 16, Leases.* We will be required to capitalize our premises lease and separate the minimum payments into principal and interest, increasing depreciation expense and reducing rent expense. We estimate depreciation will increase by $278,000 and rent will decrease by $308,000.

Selling Expenses

Selling expenses, as a percentage of sales, are lower in 2019 than in 2018 because a large portion of the increase in sales is from air laid parent rolls, which is shipped in trailer lots, at a lower cost relative to sales, and on which we pay no commission.

General and Administrative Expenses

General and administrative expenses increased in 2019 over 2018 due to the recognition of an impairment loss on trade receivables and increased professional fees and salaries from higher fees and rates of pay.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Nevertheless, during the year ended March 31, 2019, one of our customers entered into creditor protection proceedings while it attempts to refinance its operations, making the collection of $70,578 in receivables doubtful, for which we have made a full impairment allowance. Recent general economic conditions may cause some of our other 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, 2019, trade and other receivables include $29,698 that is more than 30 days past due, not including the receivables written off, and against which we have made no allowance for impairment. We believe that we will eventually receive full payment of these amounts.

During the year ended March 31, 2019, professional fees include $11,328 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, 2019, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $399,389 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. $367,644 of the compensation is included in general and administrative salaries and employee benefits, $27,027 is included in administration and office and $4,718 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, trade and other receivables and trade and other payables are denominated in US dollars. While the amounts of exposure change on a daily basis, we generally have more US dollar liabilities than US dollar financial assets. Over the past year, our exposure ranged from US$100,424 net assets to US$326,370 net liabilities and averaged US$97,312 net liabilities (calculated on a monthly basis) and at March 31, 2019 net assets were US$103,340. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.34 to Cdn$1.35) 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$1,033 on an exposure of US$103,340. During the year ended March 31, 2019 we realized foreign exchange losses of $8,737 compared to gains of $4,059 in 2018. 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 lost some sales opportunities when one of our production machines broke down for a period during the year ended March 31, 2018. Business interruption insurance covered the estimated $69,363 in gross profit lost due to the break-down.

Interest on our revolving bank loan and term bank loan fluctuates with the prime rate of interest. We entered into an interest rate swap during the year ended March 31, 2018 that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap caused us to reflect an unrealized loss of $19,985 during the year ended March 31, 2019 and $14,495 during the year ended March 31,

2018. Fair value losses or gains will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Liquidity and Capital Resources

Our operating cash flows were $1,462,054 during the year ended March 31, 2019, an average of $121,838 per month, compared to $115,513 per month during 2018, before accounting for fluctuations in non-cash working capital. At March 31, 2019, we had cash of $474,030 and working capital of $1,107,388 compared to cash of $402,293 and working capital of $1,071,467 at March 31, 2018. The increase is due to improved operating cash flows, offset by dividends, equipment purchases, and term loan interest and principal payments.

We declared and paid a quarterly dividend of $0.0025 per share starting in September 2018.

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

We have a revolving bank loan facility of $1,500,000. 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 $1,500,000 are not included in the calculation. Substantially all of our assets are pledged as collateral. No loans were outstanding under this facility at March 31, 2019, however irrevocable letters of credit totaling US$69,200 were outstanding at March 31, 2019 against the 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 $400,000 and accounts payable by an additional $400,000. 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 term loan which was used for the purchase of our binder bonded air laid paper making machine. Repayment of the loan is in monthly instalments of $59,524 commencing September 22, 2016 with a final payment of the $2,142,848 balance of principal on August 22, 2020. We intend to get annual one-year extensions of the final payment date at least one year before the final payment date so that no more than $714,288 (twelve monthly payments of $59,524) of the term loan is current at any time. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of our assets are pledged as collateral.

We have covenanted with the bank to maintain our consolidated ratio of current assets to current liabilities at 1.20:1 or higher, our consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and our consolidated 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 1.25:1 or higher. We are in compliance with all of these covenants at March 31, 2019 and do not anticipate difficulty maintaining this compliance during the forthcoming year, even after adopting the new *IFRS 16, Leases* accounting policy. If we are not compliant with these covenants, and are unable to obtain a waiver from the bank, the loan will become payable on demand.

We intend to spend around $300,000 for production equipment additions and improvements during the next year, which we will finance from operating cash flows.

New Accounting Policies

The International Accounting Standards Board adopted *IFRS 15, Revenue from Contracts with Customers*, in May 2014 effective for financial years beginning on or after January 1, 2018, which establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments. We adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption of this standard did not have any significant impact on our consolidated financial statements, other than the disclosure of additional information.

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the

classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. We adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption of this standard did not have a material impact on our consolidated financial statements or to the measurement categories or carrying amounts of its financial instruments.

The International Accounting Standards Board adopted *IFRS 16, Leases* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a “right-of-use” asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

We will adopt this standard as of our opening balance sheet for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result we will recognize a right-to-use asset and a lease liability for our lease of premises and make the adjustments described at the end of note 3 to the consolidated financial statements.

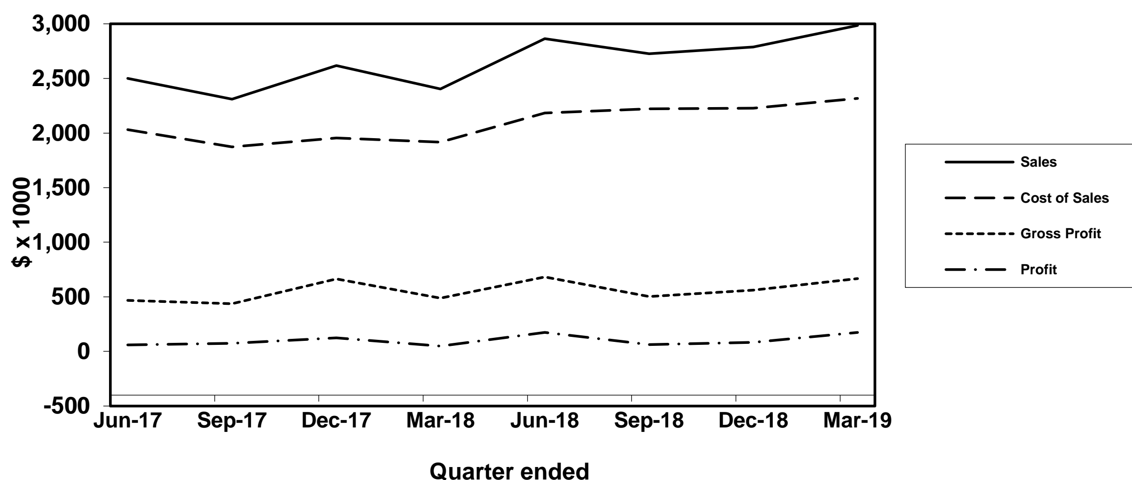
The adoption provisions of IFRS 16 also permit retroactive adoption at the commencement date of the lease with restatement of prior periods. We chose the retrospective approach as it is simpler.

As permitted by IFRS 16, we will elect not to apply the standard to short-term leases and leases for which the underlying asset is of low value as the effect would be immaterial.

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 2019	**Dec 31 2018**	**Sep 30 2018**	**Jun 30 2018**	**Mar 31 2018**	**Dec 31 2017**	**Sep 30 2017**	**Jun 30 2017**
Sales	2,985	2,788	2,726	2,865	2,403	2,617	2,310	2,499
Cost of sales	2,317	2,228	2,223	2,183	1,916	1,954	1,873	2,030
Gross profit	668	560	503	682	487	663	437	469
Selling and distribution expenses	220	224	207	245	200	232	207	188
General and administrative expenses	253	168	170	172	174	174	146	164
Operating profit	195	168	126	265	113	257	84	117
Other expenses (income)	43	55	39	30	51	50	(17)	38
Profit before tax	152	113	87	235	62	207	101	79
Income tax expense	48	31	26	62	21	82	27	21
Profit	104	82	61	173	41	125	74	58
Earnings per share, basic and diluted - Cdn$	0.003	0.002	0.002	0.005	0.001	0.004	0.002	0.002
Dividends paid per share - Cdn$	0.0025	0.0025	0.0025	0.0000	0.000	0.0000	0.0000	0.0000
Sales - % change over previous quarter	7.1	2.3	-4.9	19.2	-8.2	13.3	-7.6	17.7
Costs, expenses and profit - % of Sales								
Cost of sales	77.6	81.5	76.2	79.7	74.7	81.1	81.2	82.3
Selling and distribution expenses	7.4	7.6	8.5	8.3	8.9	9.0	7.6	8.1
General and administrative expenses	8.5	6.3	6.0	7.2	6.7	6.3	6.6	7.3
Other expenses (income)	1.4	1.4	1.1	2.2	1.9	-0.8	1.5	2.2
Income tax expense	1.6	1.0	2.2	0.9	3.1	1.2	0.8	0.1
Profit	3.5	2.2	6.0	1.7	4.7	3.2	2.3	0.0



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 44% of our sales are priced in US dollars. Sales were 7.1% higher in the quarter ended March 31, 2019 than in the previous quarter, ended December 31, 2018, and 24.2% higher than in the quarter ended March 31, 2018.

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, 2019 over March 31, 2018 is due to overhead expenses increasing at a lower rate than sales volumes.

Share Capital

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

	June 20, 2019
Authorized common shares without par value	Unlimited
Issued common shares	33,815,800
Shares issuable on exercise of outstanding stock options	1,700,000
Shares available for future stock option grants	1,681,580

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company.

Other Information

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.westbond.ca.

Independent auditor's report

To the Shareholders of WestBond Enterprises Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation and its subsidiary (together, the Company) as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2019 and 2018;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

PricewaterhouseCoopers LLP

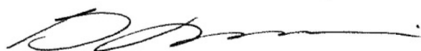
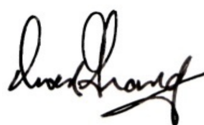
Chartered Professional Accountants

Vancouver, British Columbia
June 20, 2019

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

	Notes	March 31 2019 $	March 31 2018 $
ASSETS			
Non-Current Assets			
Plant and equipment	5	7,818,316	8,168,099
Lease deposits		18,012	18,012
Deferred tax asset	8	9,566	5,594
		7,845,894	8,191,705
Current Assets			
Inventory	6	1,244,081	991,503
Trade and other receivables		1,313,774	1,117,994
Prepaid expenses		57,604	56,414
Cash and cash equivalents		474,030	402,293
		3,089,489	2,568,204
Total Assets		10,935,383	10,759,909
EQUITY AND LIABILITIES			
Equity			
Common shares issued and outstanding	7	3,903,940	3,883,225
Stock options	7	81,770	88,985
Contributed surplus		294,089	294,089
Retained earnings	7	1,071,338	902,943
Equity attributable to common shareholders		5,351,137	5,169,242
Liabilities			
Non-Current Liabilities			
Term bank loans	10	2,440,468	3,154,756
Unrealized loss on interest rate swap	10	34,480	14,495
Deferred operating lease liability		195,235	163,693
Deferred tax liability	8	931,962	760,986
		3,602,145	4,093,930
Current Liabilities			
Term bank loans	10	714,288	714,288
Trade and other payables	11	1,267,813	782,449
		1,982,101	1,496,737
Total Liabilities		5,584,246	5,590,667
Total Equity and Liabilities		10,935,383	10,759,909
Commitments	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	Years ended March 31 2019 $	2018 $
Sales	12	11,363,162	9,829,025
Cost of sales	13	8,949,336	7,772,815
Gross Profit		2,413,826	2,056,210
Selling and distribution expenses	14	896,493	827,880
General and administrative expenses	15	763,499	657,658
Operating Profit		753,834	570,672
Foreign exchange loss (gain)		8,737	(4,059)
Proceeds from business interruption insurance claim		-	(69,363)
Interest expense		136,844	179,895
Unrealized loss on interest rate swap		19,985	14,495
Profit Before Tax		588,268	449,704
Income tax expense	8	167,004	151,616
Profit and Comprehensive Income		421,264	298,088
Weighted average shares outstanding		33,692,923	33,665,800
Earnings per share, basic		0.013	0.009
Dilutive effect of stock options outstanding		637,500	133,505
Fully diluted weighted average shares outstanding		34,330,423	33,799,305
Earnings per share, fully diluted		0.012	0.009

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	Stock Options	Contributed Surplus	Retained Earnings	Total
	$	$	$	$	$
Balance as at March 31, 2017	3,883,225	96,200	286,874	604,855	4,871,154
Forfeiture of stock option	-	(7,215)	7,215	-	-
Profit for the year	-	-	-	298,088	298,088
Balance as at March 31, 2018	3,883,225	88,985	294,089	902,943	5,169,242
Exercise of stock option	20,715	(7,215)	-	-	13,500
Dividends paid, $0.075 per share	-	-	-	(252,869)	(252,869)
Profit for the year	-	-	-	421,264	421,264
Balance as at March 31, 2019	3,903,940	81,770	294,089	1,071,338	5,351,137

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

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

	Notes	Years ended March 31 2019 $	2018 $
Operating Activities			
Profit		421,264	298,088
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation		685,415	705,707
- deferred operating lease liability		31,542	31,542
- unrealized loss on interest rate swap		19,985	14,495
- interest expense		136,844	179,895
- income tax expense		167,004	151,616
- income tax refunded		-	4,807
Cash flows from operating activities before changes in non-cash working capital		1,462,054	1,386,150
Decrease (increase) in			
- inventory		(252,578)	188,649
- trade and other receivables		(195,780)	(226,889)
- prepaid expenses		(1,190)	(14,716)
Increase (decrease) in			
- trade and other payables		511,286	(38,805)
Net Cash Flows from Operating Activities		1,523,792	1,294,389
Investing Activities			
Purchase of plant and equipment	16	(361,554)	(116,719)
Financing Activities			
Repayment of term bank loans		(714,288)	(714,288)
Interest paid		(136,844)	(185,766)
Exercise of stock options		13,500	-
Dividends paid		(252,869)	-
Net Cash Flows used in Financing Activities		(1,090,501)	(900,054)
Net Increase in Cash and Cash Equivalents		71,737	277,616
Cash and Cash Equivalents at the Beginning of the Year		402,293	124,677
Cash and Cash Equivalents at the End of the Year		474,030	402,293

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

1. GENERAL INFORMATION

WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc., (together, the company) are a paper manufacturer and 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, 2019 were authorized for issue by resolution of the directors on June 20, 2019.

2. BASIS OF PREPARATION

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 statements 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	- 1 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

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. Overhead related to raw materials manufactured by the company is allocated to the cost of those raw materials based on the practical capacity of the manufacturing plant. The allocation of the remaining overhead 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 consolidated 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

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

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 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. The company's interest rate swap contract is 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.

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 statements 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.

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

Current tax is the expected tax payable or refundable on the taxable profit or loss 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 or refundable 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

The company sells goods that it has manufactured to its customers based on contracts comprising a purchase order from the customer and an order confirmation sent to the customer that sets the prices for the goods ordered. Revenue from contracts with customers is recognized when the goods are shipped, which is when control of the products transfers to the customer and the company has no remaining performance obligations, provided it is probable that the company will collect the selling price for the goods.

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 or warrants, 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 statements of financial position as a deferred operating 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.

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

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.

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

The International Accounting Standards Board adopted *IFRS 15, Revenue from Contracts with Customers*, in May 2014 effective for financial years beginning on or after January 1, 2018, which establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. The company adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption did not have any significant impact on the company's consolidated financial statements, other than the disclosure of additional information.

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption did not have a material impact on the consolidated financial statements or to the measurement categories or carrying amounts of its financial instruments.

The International Accounting Standards Board adopted *IFRS 16, Leases* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

The company will adopt this standard as of its opening statement of financial for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result it will recognize a right-to-use asset and a lease liability for its lease of premises (note 18) and make the adjustments described in the following table. The lease liability to be recorded is the present value of the remaining lease payments discounted using the company's incremental borrowing rate at April 1, 2019 of 4.45%. The company will elect not to apply the standard to short-term leases and leases for which the underlying asset is of low value.

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

	Non-Current Assets	Equity	Non-Current Liabilities	Current Liabilities
	$	$	$	$
Ending Statement of Financial Position at March 31, 2019	7,845,894	5,351,137	3,602,145	1,982,101
Reversal of deferred lease liability	-	195,235	(195,235)	-
Related increase in deferred tax liability	-	(52,713)	52,713	-
Recognition of right-to-use asset and related lease liability	2,934,789	-	2,740,762	194,027
Application of lease deposits to lease liability	(18,012)	-	(18,012)	-
Opening Statement of Financial Position at April 1, 2019	10,762,671	5,493,659	6,182,373	2,176,128

.

4. FINANCIAL INSTRUMENTS

The company has various financial instruments including trade and other receivables, cash and cash equivalents, revolving bank loans, term bank loans, trade and other payables and interest rate swaps. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Interest rate swaps are carried at fair value. Trade and other receivables and all non-interest rate swap 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. There are 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 interest rate swaps 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

4. FINANCIAL INSTRUMENTS (continued)

of sales to a relatively wide customer base, primarily in North America. The company only deals with customers that it considers creditworthy. Nevertheless, during the year ended March 31, 2019, one of its customers entered into creditor protection proceedings while it attempts to refinance its operations, making the collection of $70,578 in receivables doubtful, for which the company has made a full impairment allowance. At March 31, 2019 $29,698 (2018 – $43,406) of trade and other receivables were between 31 and 60 days past due and $nil (2018 – $13,989) were more than 60 days past due, not including the receivables written off. 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, 2019 the company wrote off $70,578 in trade and other receivables (2018 – $8,761). At March 31, 2019 the amount of $618,137 was due from three customers (2018 – $320,838, two customers), each of whom represented more than 10% and together represented an aggregate of 47% of trade and other receivables (2018 – 29%). Two of the customers are long standing customers who consistently make regular payments and the third promptly pays within 15 days.

The company's revolving bank loan and term bank loan are at interest rates that fluctuate with market interest rates. The company has entered into an interest rate swap that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap are reflected in profit, but will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Portions of the company's cash and cash equivalents, 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 liabilities than US dollar financial assets. Over the past year, the exposure ranged from US$100,424 net assets to US$326,370 net liabilities and averaged US$97,312 net liabilities (calculated on a monthly basis) and, at March 31, 2019, net liabilities were US$103,340. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.34 to Cdn$1.35) 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$1,033 on an exposure of US$103,340. During the year ended March 31, 2019 the company realized foreign exchange losses of $8,737 (2018 – gains of $4,059). 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.

5. PLANT AND EQUIPMENT

	Factory equipment	Leasehold improvements	Office equipment	Total
	$	$	$	$
At March 31, 2017				
Cost	12,599,814	141,665	138,970	12,880,449
Accumulated depreciation	(4,047,061)	(17,261)	(80,179)	(4,144,501)
Net book value	8,552,753	124,404	58,791	8,735,948
Additions	116,533	17,454	4,871	138,858
Disposals – cost	(5,000)	-	(4,642)	(9,642)
Disposals – accumulated depreciation	4,000	-	4,642	8,642
Depreciation	(685,921)	(6,871)	(12,915)	(705,707)
At March 31, 2018				
Cost	12,711,347	159,119	139,199	13,009,665
Accumulated depreciation	(4,728,982)	(24,132)	(88,452)	(4,841,566)
Net book value	7,982,365	134,987	50,747	8,168,099
Additions	320,108	10,703	4,821	335,632
Disposals – cost	(160,204)	-	(3,930)	(164,134)
Disposals – accumulated depreciation	160,204	-	3,930	164,134
Depreciation	(668,111)	(7,807)	(9,497)	(685,415)
At March 31, 2019				
Cost	12,871,251	169,822	140,090	13,181,163
Accumulated depreciation	(5,236,889)	(31,939)	(94,019)	(5,362,847)
Net book value	7,634,362	137,883	46,071	7,818,316

Included in factory equipment at March 31, 2019 is equipment costing $179,136 (2018 – $202,946) that was under construction or refurbishment or had not otherwise been made available for use. Substantially all of the plant and equipment has been pledged as collateral for the company's bank loans (notes 9 and 10).

6. INVENTORY

	2019	2018
	$	$
Raw materials	943,014	704,102
Finished goods	301,067	287,401
Total inventory	1,244,081	991,503

Substantially all of the inventory has been pledged as collateral for the company's bank loans (notes 9 and 10).

7. SHARE CAPITAL

Authorized

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

Issued

	Common Shares Issued	
	Number	Ascribed Value $
Outstanding at March 31, 2017 and 2018	33,665,800	3,883,225
Issued on the exercise of stock options	150,000	20,715
Outstanding at March 31, 2019	33,815,800	3,903,940

Stock Option Plan

During the year ended March 31, 2016 the company 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 10% of the outstanding common shares of the company at the time of the grant, less any stock options previously granted and still outstanding. Options granted under the plan expire after a maximum of 10 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. No options have been granted under this plan.

During the year ended March 31, 2015 stock options were granted under the company's previous stock option plan 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. An option to purchase 150,000 shares was forfeited during the year ended March 31, 2018 after the resignation of the holder. An option to purchase 150,000 shares was exercised during the year ended March 31, 2019. The options on the remaining 1,700,000 shares outstanding has a remaining life of 0.7 years at March 31, 2019.

Subsequent to March 31, 2019 the Company declared a quarterly dividend of $0.0025 per share payable on June 20, 2019 to the shareholders of record on June 7, 2019.

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:

	2019	2018
	$	$
Operating losses carried forward	9,566	5,594
Allowable capital losses carried forward	35,691	32,993
	45,257	38,587
Valuation allowance	(35,691)	(32,993)
Net deferred tax asset	9,566	5,594
Depreciation of plant and equipment	1,955,340	2,098,968
Operating losses carried forward	(1,023,378)	(1,337,982)
Net deferred tax liability	931,962	760,986

The income tax expense shown on the consolidated statements 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. The rates differ from 2018 to 2019 as the British Columbia statutory rate increase by 1% effective January 1, 2018.

	2019	2018
Combined statutory rate	27.00%	26.25%
	$	$
Income tax expense based on the statutory rates	158,832	118,032
Tax effect of expenses that are not deductible for income tax purposes	5,474	4,884
Increase in valuation allowance	2,698	1,957
Increase in tax rates	-	26,743
Income tax expense for the year	167,004	151,616
Current portion	-	-
Deferred portion	167,004	151,616

9. REVOLVING BANK LOANS

The company has a $1,500,000 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 $1,500,000 are not included in the calculation. Loans outstanding under the facility bear interest at bank prime rate plus 0.5% per annum and are payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral. No loans were outstanding under this facility at March 31, 2019 or 2018, however irrevocable letters of credit totaling US$69,200 were outstanding at March 31, 2019 against the loan facility (note 18).

The company has covenanted with the bank to maintain various financial ratios and was in compliance with these covenants at March 31, 2019.

10. TERM BANK LOANS

The company has a term bank loan facility used for the purchase of certain production equipment. Repayment of the loans is in monthly instalments of $59,524 with a final payment of the balance of principal in August 2020. Interest is payable monthly at bank prime rate plus 0.5% per annum. The company has entered into an interest rate swap with an effective date of December 22, 2017 and a maturity date of November 22, 2022. This swap effectively fixes the interest on the term bank loan to 3.88% per annum, comprising 2.38% which is fixed under the swap and a 1.5% credit charge.

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. The covenants applicable to the revolving bank loans (note 9) also apply to the term loan facility.

11. TRADE AND OTHER PAYABLES

	2019	2018
	$	$
Payable to suppliers for trade purchases	1,032,745	587,915
Payable to employees for wages and expenses	139,107	110,633
Payable to governments for withholding and sales taxes	50,810	41,901
Accrued liabilities	45,151	42,000
	1,267,813	782,449

12. SALES

	2019	2018
	$	$
Personal hygiene products	4,046,919	4,266,950
Clinical products	1,823,461	1,784,060
Long-term care products	1,992,870	2,392,582
Non-clinical air laid products	3,419,296	1,283,943
Other products	80,616	101,490
	11,363,162	9,829,025

13. COST OF SALES

	2019	2018
	$	$
Materials	5,870,295	4,941,399
Production labour	975,466	868,011
Factory overhead labour	468,567	433,100
Variable overhead	436,285	322,600
Fixed overhead	522,804	514,913
Depreciation	675,919	692,792
	8,949,336	7,772,815

14. SELLING AND DISTRIBUTION EXPENSES

	2019	2018
	$	$
Shipping	777,028	700,775
Wages, commissions and other employee benefits	103,872	109,660
Other	15,593	17,445
	896,493	827,880

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	$	$
Administration and office	149,774	149,169
Corporate promotion	12,996	9,753
Impairment loss on trade receivables	70,578	8,761
Professional fees	62,737	56,792
Salaries and other employee benefits	467,414	433,183
	763,499	657,658

16. SUPPLEMENTARY CASH FLOW INFORMATION

During the year ended March 31, 2019 trade and other payables related to the purchase of plant and equipment decreased by $25,922 (2018 – increased by $21,139).

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, 2019 the company had domestic sales in Canada of $6,404,052 (2018 – $6,437,182) and export sales to the United States and its territories of $4,959,110 (2018 – $3,391,843). During the year ended March 31, 2019 the company had sales to three customers of $5,109,847 (2018 – two customers, $2,423,944), each of whom represented more than 10% of sales.

18. COMMITMENTS

The company has an operating lease for premises ending October 31, 2029. Future minimum lease payments are as follows:

Years ending March 31	$
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 $154,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2019 the company expensed $330,599 (2018 – $330,599) in minimum lease payments, and $152,747 (2018 – $157,219) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

The company has made commitments to purchase machinery in the amount of US$69,200. The commitments are supported by irrevocable letters of credit issued under the revolving bank loan facility (note 9).

19. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2019:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $399,389 (2018 – $376,414) to directors and officers of the company; and
- The company incurred $11,328 (2018 – $7,370) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

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 revolving bank loans and term bank 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. The company was in compliance with the covenants and terms under its revolving bank loans and term bank loans during the years ended March 31, 2019 and 2018.