# WESTBOND ENTERPRISES CORPORATION

## *2009 Annual Report*

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

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

**www.westbond.ca**

*WestBond Enterprises Corporation*

## Management Discussion and Analysis

**dated July 8, 2009, to accompany the consolidated financial statements for the year ended March 31, 2009**

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

### Description of Our Business

We, WestBond Enterprises Corporation ("WestBond" or the "Company"), are a paper converter that supplies disposable paper products to many market segments. We initially grew to become one of Canada's leading manufacturers of medical disposables. In 2002 we expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

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

Our goal 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.

During 2005 we finished the installation of the last of the machines that permit us to provide a comprehensive personal hygiene paper product line. In addition, in September 2005, we purchased the equipment of a California based paper converter. The equipment included two more winders for the personal hygiene line and a facial tissue folder, which allowed us to expand our product mix and capacity. It also included a number of other machines that increased our operating efficiency. We are now in a position to increase our marketing efforts. We expect an increase in sales of our personal hygiene products over the next several months, and years. We also aim to increase our sales of clinical and long-term care 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. We have made major capital expenditures to manufacture this product line, which we expect will soon surpass sales volumes to the health care industry.

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.

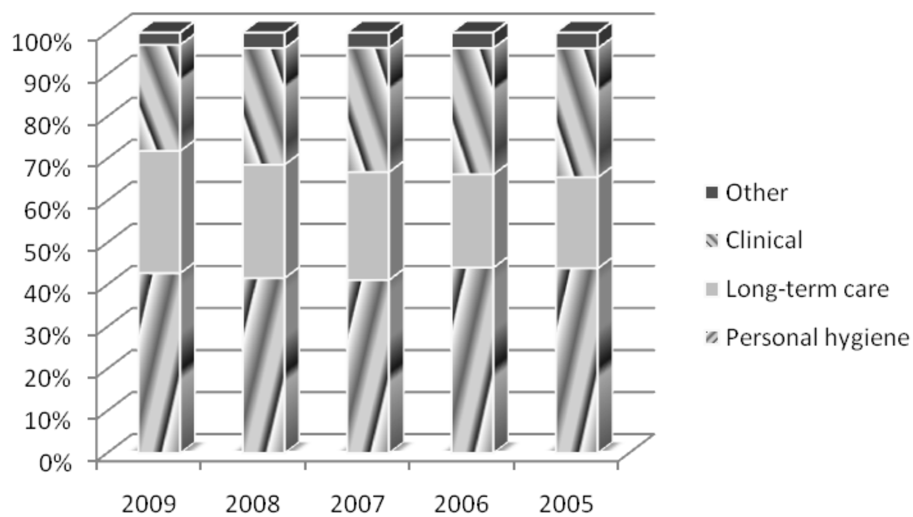
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

**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 two entire production lines to these items. The products include patient wipes, mitts and underlays. All products are made with very high quality air laid paper which results in very soft, very absorbent wipes which are used as disposable wash cloths and perineal wipes.

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

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

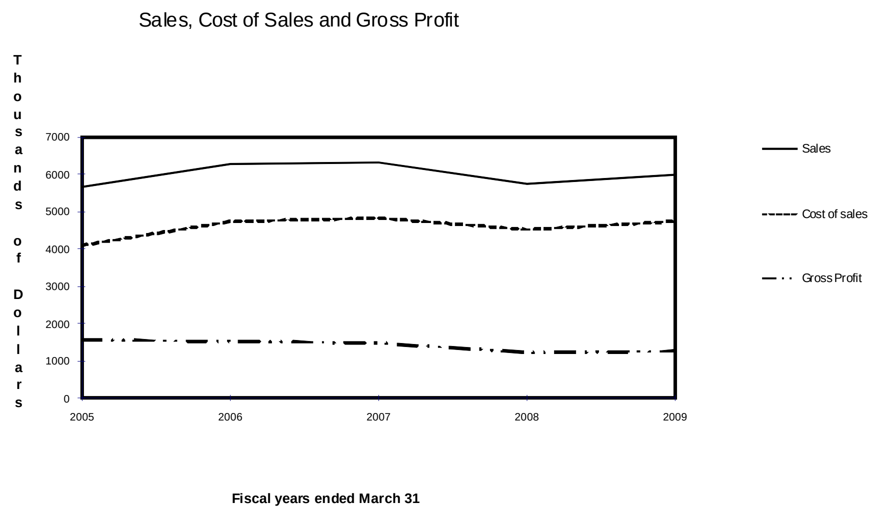
The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2005 through 2009.



## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2009 while you read this discussion. Those financial statements provide significant, material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

Our net income for the year ended March 31, 2009 was $163,608, compared to $95,385 for the year ended March 31, 2008. Our gross profit margin realized during 2009 was 21.0%, compared to 21.3% for 2008 and 23.4% for 2007. Our gross profit margins are under pressure due to increased competition from US and Chinese product. The low value of the US dollar makes their product cheaper in Canada. Lower selling and marketing and general and administrative expenses helped to offset this decrease.



## 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 Canadian generally accepted accounting principles.**

| Operating Results | Years ended March 31, 2009 $ | 2009 % of sales | 2008 $ | 2008 % of sales | 2007 $ | 2007 % of sales |
|---|---|---|---|---|---|---|
| Sales | 6,003,308 | 100.0 | 5,739,436 | 100.0 | 6,303,386 | 100.0 |
| Cost of sales | 4,743,313 | 79.0 | 4,515,344 | 78.7 | 4,828,349 | 76.6 |
| Gross profit | 1,259,995 | 21.0 | 1,224,092 | 21.3 | 1,475,037 | 23.4 |
| Selling and marketing expenses | 486,951 | 8.1 | 518,129 | 9.0 | 709,333 | 11.3 |
| General and administrative expenses | 583,647 | 9.7 | 637,498 | 11.1 | 667,977 | 10.6 |
| Net income before tax | 189,397 | 3.2 | 68,465 | 1.2 | 97,727 | 1.5 |
| Income tax expense (recovery) | 25,789 | 0.5 | (26,920) | -0.5 | 2,443 | 0.0 |
| Net income | 163,608 | 2.7 | 95,385 | 1.7 | 95,284 | 1.5 |
| Net income per share, basic and diluted | 0.01 | | 0.01 | | 0.01 | |
| Cash dividends declared per common share | nil | | nil | | nil | |

| Financial Position | March 31, 2009 $ | 2008 $ | 2007 $ |
|---|---|---|---|
| Current assets | 1,869,063 | 1,514,696 | 1,773,317 |
| Plant and equipment | 2,675,836 | 2,842,813 | 2,915,195 |
| Total assets | 4,544,899 | 4,357,509 | 4,688,512 |
| Current liabilities | 1,348,487 | 1,273,482 | 1,647,321 |
| Long-term liabilities | 425,406 | 494,189 | 644,811 |
| Shareholders' equity | 2,771,006 | 2,589,838 | 2,396,380 |

***Sales***

Sales were $6,003,308 for the year ended March 31, 2009. This represents a 4.6% increase over the year ended March 31, 2008. Sales increased in personal hygiene and long-term care products and decreased in clinical and other products. Pressure from US competitors offering clinical and other products in reduced value US dollars in the Canadian market has made it difficult for us to increase our sales of these products.

The table below summarizes the sales of the Company for the last five fiscal years.

| | 2009 $ | 2008 $ | 2007 $ | 2006 $ | 2005 $ |
|---|---|---|---|---|---|
| Personal hygiene products | 2,568,791 | 2,389,176 | 2,595,586 | 2,760,316 | 2,484,051 |
| Clinical products | 1,515,758 | 1,589,133 | 1,864,429 | 1,882,879 | 1,733,599 |
| Long-term care products | 1,744,811 | 1,548,265 | 1,616,840 | 1,387,861 | 1,223,751 |
| Other products | 173,948 | 212,862 | 226,531 | 228,370 | 210,869 |
| Total sales | 6,003,308 | 5,739,436 | 6,303,386 | 6,259,426 | 5,652,270 |
| Change over previous year | 4.6% | -8.9% | 0.7% | 10.7% | 11.5% |

The decline in sales during 2008 follows a period of significant growth from 2004 to 2007. We have reversed this trend in 2009 for the personal hygiene and and long-term care products. The growth was caused by increased sales volumes, new customers and new products. Price increases have not been significant during the last few years. The decrease in sales during 2008 is due to decreased volumes from the personal hygiene and clinical and long-term care product lines. The weak US dollar also reduced the Canadian dollar value of our sales to the US and caused US priced competitors' product to be cheaper in Canada. Approximately 29% of our sales are in US dollars.

We have developed a strategy that reduces the impact of the fluctuating US dollar on our profits. If the Canadian dollar rises against the US dollar, we make our paper purchases in the United States and shift our sales to Canadian distributors. If the US dollar rises against the Canadian dollar, then we purchase our paper in Canada and shift our sales to US customers. We maintain a purchasing and selling presence in both countries which allows us to grow profitably when market conditions are difficult for our competitors.

We have expanded our production capacity and product offerings for the personal hygiene products from 2004 to 2007 and we intend to focus on increasing our sales of these products, both in the western United States and across Canada. In September 2005 we purchased the equipment of a California based paper converter. We refurbished and installed two tissue winders and a towel folder from this purchase during 2006 and are now in the process of refurbishing and installing a facial tissue folder and other equipment that will increase our efficiency. Last year we modified one of our paper rewinders which has allowed us to produce high margin roll towel products.

In 2006 we also entered into an agency agreement with National Sales of Sacramento, California, who represented WestBond's complete product line throughout the western United States. Significant competition from Asia and the weak US dollar prevented our sales expectations in this region from being realized. We discontinued the agency agreement during 2007, although National Sales continues as a commissioned agent.

***Cost of Sales***

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

| | 2009 | | 2008 | | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % sales | $ | % sales | $ | % sales | $ | % sales | $ | % sales |
| Materials | 3,225,162 | 53.7 | 3,028,269 | 52.8 | 3,305,299 | 52.4 | 3,376,830 | 54.0 | 2,989,137 | 52.9 |
| Labour | 490,067 | 8.2 | 456,779 | 8.0 | 491,718 | 7.8 | 484,963 | 7.8 | 433,963 | 7.7 |
| Variable overhead | 387,677 | 6.5 | 400,356 | 7.0 | 479,490 | 7.6 | 415,867 | 6.6 | 296,980 | 5.2 |
| Fixed overhead | 378,943 | 6.3 | 382,351 | 6.7 | 325,581 | 5.2 | 290,166 | 4.6 | 244,038 | 4.3 |
| Depreciation | 261,464 | 4.3 | 247,589 | 4.3 | 226,261 | 3.6 | 170,823 | 2.7 | 133,575 | 2.4 |
| Total cost of sales | 4,743,313 | 79.0 | 4,515,344 | 78.7 | 4,828,349 | 76.6 | 4,738,649 | 75.7 | 4,097,693 | 72.5 |

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. Personal hygiene products and examination table paper have a high materials component and a low labour component. By comparison, gowns, drapes, mitts, sheets and pillowcases have a higher labour component and a relatively lower materials component. Our margins are lower for the personal hygiene products, where much of the recent has growth occurred, than for the other product lines.

Paper prices, our most significant materials cost, have increased every year since 2006. Exchange rate fluctuations; however, generally worked in our favour to offset the higher US dollar prices until the current year. During the latter part of our 2009 fiscal year, the exchange rate fluctuations started to increase our costs even more. We expect that paper prices will continue to remain unsettled during our 2010 fiscal year. Our prices to our customers have been set to allow for paper cost increases of up to 10%. Materials costs also fluctuate from differences in the yield factors (the amount of product that a certain weight of paper will produce).

We had some difficulty obtaining paper supplies during the years ended March 31, 2008, 2007 and 2005 because of a shortage in supply and estimate we lost $200,000 of sales in 2005 and between $100,000 and $150,000 during 2007 and 2008 as a result. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply in the future; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Labour in cost of sales averaged 8.2% of sales during 2009 and has been relatively stable over the last five years. The current labour market near our factory was tight during the year and it is took extra time to find and train new machine operators. We have seen some relief in the last few months caused by a slowdown in the local construction industry. If we are unable to hire sufficient machine operators, we will not be able to produce the additional products for sale.

Variable overhead normally fluctuates slightly from one period to the next. Increased maintenance activities, factory supervision, training and stock transfer costs account for the earlier increases in variable overhead. We curtailed some of these activities during 2008 and 2009 and reduced the costs to a more sustainable level.

Higher rent added $56,629 to fixed overhead in 2008 and $28,861 in 2007. We rented additional warehouse space which increased fixed overhead. 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.

***Selling Expenses***

Shipping costs are lower in 2009 than in 2008 because we negotiated better bulk shipping rates to the US. The Company also discontinued the sales agency relationship in California, which reduced sales commissions and other selling costs.

***General and Administrative Expenses***

Our general and administrative costs have decreased in 2009 over 2008 as a result of discontinuing much of the corporate promotion activities, and to decreased bad debt expense and foreign exchange gains, included in administration and office expense. These were offset by increases in audit fees, included in professional fees, and in bank charges.

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, 2009, accounts receivable include $46,189 that is more than 60 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 2009 our bad debt losses amounted to $2,950, compared to $13,000 for 2008.

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$105,000 to US$146,000 and averaged approximately US$129,000 (calculated on a quarterly basis). Each change of 1% (e.g., a change from US$1.00 = Cdn$1.20 to Cdn$1.21) 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$1,000 on an exposure of US$100,000. During 2009, our foreign exchange gains were $24,866, compared to losses of $11,002 in 2008. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US suppliers

Interest expense was lower in 2009 over 2008 because we reduced our term loans and because interest rates were lower. Interest on our bank indebtedness and term loans fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2009, a 1% increase in the prime rate of interest would increase total interest expense by $7,190 per year.

During the year ended March 31, 2009, professional fees include $9,519 paid to DuMoulin Black LLC, 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.

### *Income Taxes*

The future income tax recovery in 2008 and the very low expense for 2009 are the result of reductions in future income tax rates enacted during the years. The future income tax liabilities that were recorded up to March 31, 2008 at an effective rate of 31% were reduced to 27%, creating a recovery of $55,601. Further rate reductions, to 25% in 2009, have been enacted and created an additional recovery of $38,760.

### *New Accounting Policies*

New accounting standards adopted by the Canadian Institute of Chartered Accountants apply to financial instruments, inventory and capital disclosure policies commencing with the year ended March 31, 2009. The new standards are described in note 2 to the consolidated financial statements for the year ended March 31, 2009. There was no significant effect on our financial statements as a result of adopting the new standards.

The Canadian Institute of Chartered Accountants has also adopted new accounting standards that will apply to the financial statements for the current financial year, ending March 31, 2010. The new standards are described in note 2 to the consolidated financial statements for the year ended March 31, 2009. The adoption of these standards is not expected to have a significant effect on our financial statements.

The CICA has discussed plans to converge Canadian GAAP with International Financial Reporting Standards over a transition period expected to end in 2011. We are monitoring and reviewing CICA plans to make the transition, but have not yet determined the impact on our consolidated financial statements.

## Liquidity and Capital Resources

Our operating cash flows were $477,059 during the year ended March 31, 2009, an average of $39,755 per month, compared to $27,428 per month during 2008, before accounting for fluctuations in non-cash working capital. We repaid one of our term loans in July 2007 in order to reduce the operating cash flows required to maintain bank covenants in good standing. We are currently in compliance with all loan covenants and do not anticipate further loan non-compliance issues. The funds to repay the loan came from a private placement of 1,060,000 units at $0.095 per unit. Each unit comprises one share and one warrant to purchase an additional share at $0.125 per share until July 17, 2012. Four of our directors, Gennaro Magistrale, Owen Granger, J. Douglas Seppala and David Mills, purchased 1,000,000 of the units. The pricing of the units and the terms and pricing of the warrants forming part of the units were determined in accordance with the policies of the TSX Venture Exchange.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency and to pay off bank debt. The total principal outstanding on term loans was $133,998 at March 31, 2009. Principal repayments are $7,881 per month.

We have a revolving bank loan facility of $1,000,000, of which $585,000 was used at March 31, 2009. 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.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as $150,000 and accounts payable by an additional $150,000. 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.

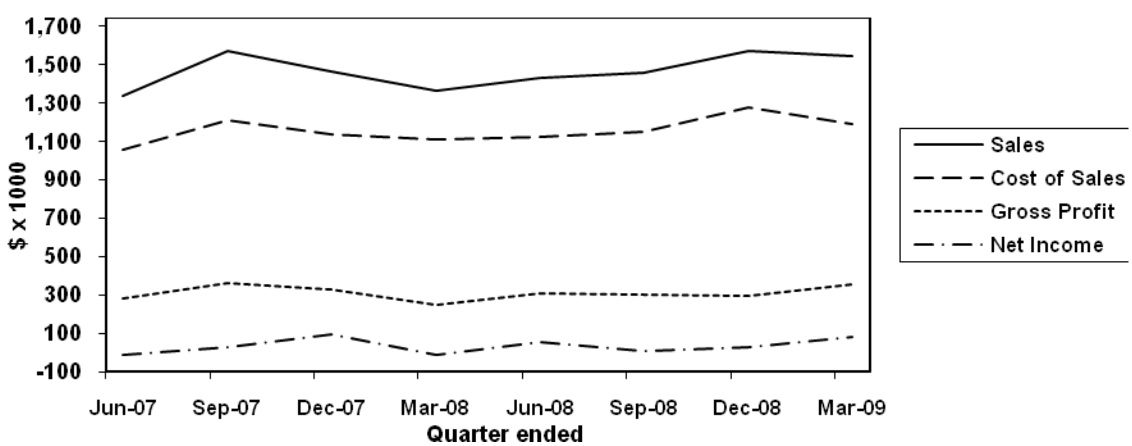
Substantially all of the Company’s assets are pledged as collateral for the revolving bank loan facility and the term loans.

We currently plan to spend approximately $200,000 on equipment expansions and improvements during the year ending March 31, 2010. We will finance these additions from operating cash flows. We may acquire additional equipment, if worthy new product opportunities arise. Financing for additional equipment would be available through operating cash flow and additional term loans.

## 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 Canadian generally accepted accounting principles.

| | Quarters ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Cdn$ x 1,000** | **Mar 31 2009** | **Dec 31 2008** | **Sep 30 2008** | **Jun 30 2008** | **Mar 31 2008** | **Dec 31 2007** | **Sep 30 2007** | **Jun 30 2007** |
| Sales | 1,543 | 1,572 | 1,455 | 1,434 | 1,364 | 1,462 | 1,574 | 1,340 |
| Cost of sales | 1,188 | 1,278 | 1,153 | 1,124 | 1,113 | 1,135 | 1,211 | 1,057 |
| Gross profit | 355 | 294 | 302 | 310 | 251 | 327 | 363 | 283 |
| Selling and marketing expenses | 120 | 120 | 129 | 118 | 119 | 125 | 154 | 122 |
| General and administrative expenses | 148 | 135 | 159 | 141 | 144 | 135 | 175 | 183 |
| Net (loss) income before taxes | 87 | 39 | 14 | 51 | (12) | 67 | 34 | (22) |
| Income tax (recovery) expense | 9 | 12 | 6 | (1) | (2) | (26) | 7 | (6) |
| Net income (loss) | 78 | 27 | 8 | 52 | (10) | 93 | 27 | (16) |
| Net income (loss) per share, basic and diluted - Cdn$ | 0.007 | 0.002 | 0.001 | 0.005 | (0.001) | 0.008 | 0.003 | (0.002) |
| **Sales - % change over previous quarter** | -1.8 | 8.1 | 1.5 | 5.1 | -6.7 | -7.1 | 17.5 | -6.0 |
| **Costs, expenses and net income - % of Sales** | | | | | | | | |
| Cost of sales | 77.0 | 81.3 | 79.3 | 78.4 | 81.5 | 77.6 | 76.9 | 78.9 |
| Selling and marketing expenses | 7.8 | 7.6 | 8.9 | 8.2 | 8.7 | 8.5 | 9.8 | 9.1 |
| General and administrative expenses | 9.6 | 8.6 | 10.9 | 9.9 | 10.6 | 9.2 | 11.1 | 13.7 |
| Income tax (recovery) expense | 0.6 | 0.8 | 0.4 | -0.1 | -0.1 | -1.7 | 0.4 | -0.5 |
| Net (loss) income | 5.0 | 1.7 | 0.5 | 3.6 | -0.7 | 6.4 | 1.8 | -1.2 |




The fluctuations in sales are, for the most part, due to changes in volume. The improved gross margin during the quarter ended March 31, 2009 is due to lower materials costs and labour efficiencies.

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.

## Share Capital

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

| | Amount at July 8, 2009 |
|---|---|
| Authorized common shares | Unlimited |
| Issued common shares | 11,063,800 |
| Shares issuable on the exercise of outstanding warrants | 1,060,000 |
| Shares issuable on exercise of outstanding stock options | 800,000 |
| Shares available for future stock option grants | 1,200,000 |

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

The shareholder rights plan (the “Plan”) is meant to protect the Company’s shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the Company’s annual general meeting in 2009. 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 and on the Company’s web-site at www.westbond.ca.

## WestBond Enterprises Corporation

### Management's Report on the Financial Statements

The accompanying consolidated financial statements of WestBond Enterprises Corporation have been prepared by and are the responsibility of the company's management. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee comprises three directors, all of whom are neither officers nor employees of the company. The Audit Committee meets with management and the company's auditors, PricewaterhouseCoopers LLP, to review the financial statements before they are presented to the Board of Directors for approval.

PricewaterhouseCoopers LLP have examined these consolidated financial statements and their report follows.

President
July 8, 2009

Secretary/Treasurer

PRICEWATERHOUSECOOPERS

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

## Auditors' Report

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

We have audited the consolidated balance sheets of **WestBond Enterprises Corporation** as at March 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants**

Vancouver, British Columbia
July 8, 2009

# WESTBOND ENTERPRISES CORPORATION

## Consolidated Balance Sheets

### (Canadian Dollars)

| | March 31, 2009 | March 31, 2008 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 151,259 | 43,658 |
| Accounts receivable | 845,318 | 702,035 |
| Inventory (note 4) | 830,080 | 725,697 |
| Prepaid expenses | 42,406 | 43,306 |
| **TOTAL CURRENT ASSETS** | 1,869,063 | 1,514,696 |
| **PLANT AND EQUIPMENT** (note 5) | 2,675,836 | 2,842,813 |
| **TOTAL ASSETS** | 4,544,899 | 4,357,509 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Bank indebtedness (note 6) | 585,000 | 580,000 |
| Accounts payable and accrued liabilities | 668,915 | 569,780 |
| Current portion of term loans (note 7) | 94,572 | 123,702 |
| **TOTAL CURRENT LIABILITIES** | 1,348,487 | 1,273,482 |
| **TERM LOANS** (note 7) | 39,426 | 133,998 |
| **FUTURE INCOME TAX LIABILITIES** (note 8) | 385,980 | 360,191 |
| **TOTAL LIABILITIES** | 1,773,893 | 1,767,671 |
| **SHAREHOLDERS' EQUITY** | | |
| **SHARE CAPITAL** (note 10) | | |
| Common shares issued and outstanding | 2,099,703 | 2,099,703 |
| Warrants | 32,364 | 32,364 |
| **STOCK OPTIONS** (note 10) | 241,340 | 223,780 |
| **RETAINED EARNINGS** | 397,599 | 233,991 |
| **TOTAL SHAREHOLDERS' EQUITY** | 2,771,006 | 2,589,838 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 4,544,899 | 4,357,509 |

**Nature of Operations (note 1)**
**Commitments (note 13)**

**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 Operations, Comprehensive Income and Retained Earnings

**(Canadian Dollars)**

| | Year ended March 31, 2009 | 2008 |
|---|---|---|
| | **$** | **$** |
| **SALES** | 6,003,308 | 5,739,436 |
| **COST OF SALES** | | |
| Materials | 3,225,162 | 3,028,269 |
| Labour | 490,067 | 456,779 |
| Variable overhead | 387,677 | 400,356 |
| Fixed overhead | 378,943 | 382,351 |
| Depreciation | 261,464 | 247,589 |
| Total cost of sales | 4,743,313 | 4,515,344 |
| **GROSS PROFIT** | 1,259,995 | 1,224,092 |
| **EXPENSES** | | |
| **Selling and marketing** | | |
| Shipping | 354,651 | 362,882 |
| Salaries, commissions and employee benefits | 118,553 | 138,376 |
| Other | 13,747 | 16,871 |
| Total selling and marketing expenses | 486,951 | 518,129 |
| **General and administrative** | | |
| Administration and office | 90,276 | 138,670 |
| Corporate promotion | 3,969 | 13,663 |
| Interest on term loans | 9,365 | 25,125 |
| Interest on other debt | 25,319 | 39,283 |
| Professional fees | 66,700 | 44,290 |
| Salaries and employee benefits | 388,018 | 376,467 |
| Total general and administrative expenses | 583,647 | 637,498 |
| **INCOME FOR THE YEAR BEFORE TAXES** | 189,397 | 68,465 |
| **PROVISION FOR (RECOVERY OF) INCOME TAXES** (note 8) | | |
| Future | 25,789 | (26,920) |
| **NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR** | 163,608 | 95,385 |
| **RETAINED EARNINGS - BEGINNING OF YEAR** | 233,991 | 138,606 |
| **RETAINED EARNINGS - END OF YEAR** | 397,599 | 233,991 |
| Weighted average number of shares outstanding | 11,063,800 | 10,751,013 |
| **EARNINGS PER SHARE, basic and diluted** | 0.01 | 0.01 |

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

# WESTBOND ENTERPRISES CORPORATION

## Consolidated Statements of Cash Flows

**(Canadian Dollars)**

| | Year ended March 31, 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income for the year | 163,608 | 95,385 |
| Adjustments to reconcile net income to cash flows from operating activities | | |
| - depreciation | 270,102 | 255,833 |
| - future income tax expense (recovery) | 25,789 | (26,920) |
| - stock option expense | 17,560 | 4,842 |
| Cash flows from operating activities before net change in non-cash working capital | 477,059 | 329,140 |
| Net change in non-cash working capital related to operating activities | (149,759) | 183,101 |
| **TOTAL OPERATING ACTIVITIES** | 327,300 | 512,241 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of plant and equipment | (112,586) | (167,590) |
| Proceeds from the sale of plant and equipment | 11,589 | - |
| **TOTAL INVESTING ACTIVITIES** | (100,997) | (167,590) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issuance of shares and warrants for cash | - | 100,700 |
| Share issuance costs | - | (7,469) |
| Repayment of term loans | (123,702) | (277,899) |
| Increase (decrease) in bank indebtedness | 5,000 | (150,000) |
| **TOTAL FINANCING ACTIVITIES** | (118,702) | (334,668) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 107,601 | 9,983 |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR** | 43,658 | 33,675 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | 151,259 | 43,658 |
| **INTEREST PAID** | 35,508 | 65,234 |
| **NON-CASH INVESTING ACTIVITIES** | | |
| **Increase in accounts payable and accrued liabilities related to purchase of plant and equipment** | 2,128 | 15,861 |

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

**WESTBOND ENTERPRISES CORPORATION**

**Notes to the Consolidated Financial Statements**

**March 31, 2009 and 2008**

**(Canadian Dollars)**

## 1. NATURE OF OPERATIONS

The company is a paper converter that manufactures disposable products for medical, hygienic and industrial uses.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, WestBond Industries Inc.

### Financial Instruments

Effective April 1, 2007, the company adopted the new accounting policies in CICA Handbook Section 3855 - Financial Instruments - Recognition and Measurement. The new policies require that all financial assets, except those classified as held to maturity and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at amortized cost. There has been no impact from the adoption of these policies on the company's consolidated financial statements.

Effective April 1, 2008, the company adopted the new accounting policies in CICA Handbook Sections 3862 – Financial Instruments – Disclosures – and 3863 – Financial Instruments – Presentation. The new policies revise and enhance certain disclosure requirements including the significance of financial instruments on the entity's financial condition, the nature and extent of risks arising from financial instruments and how these risks are managed. Other than the disclosure of additional information, there has been no impact from the adoption of these policies on the company's consolidated financial statements.

### Comprehensive Income

Effective April 1, 2007, the company adopted the new accounting policies in CICA Handbook Section 1530 – Comprehensive Income. The new policies establish standards for reporting and disclosure of comprehensive income and its components. Comprehensive income includes net income and other comprehensive income which refers to unrealized gains and losses that under generally accepted accounting principles are excluded from net income. The company does not currently engage in any transactions that would result in the reporting of other comprehensive income.

### 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 ninety days of deposit.

### Inventory

Effective April 1, 2008, the company adopted the new accounting policies in CICA Handbook Section 3031 – Inventories. The new policies requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory write-downs if economic circumstances change. The adoption of the standard did not have a material effect on the company's consolidated financial statements.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 pro-portionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

### Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged to earnings using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Factory equipment | - 5 to 20 years |
| Leasehold improvements | - 5 to 10 years |
| Office equipment | - 3 to 10 years |

Depreciation is not charged on assets not in service. The company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future cash flows the assets are expected to generate. When the carrying amount exceeds estimated future cash flows, the assets are written down to fair value.

### Capital Disclosures

Effective April 1, 2008, the company adopted the new accounting policies in CICA Handbook Section 1535 – Capital Disclosures. The new policies require the disclosure of both qualitative and quantitative information regarding the entity's objectives, policies and processes for managing capital, and what the entity regards as capital. Other than the disclosure of additional information, there has been no impact from the adoption of these policies on the company's consolidated financial statements.

### Stock-Based Compensation Plan

The company has a stock-based compensation plan, which is described in note 10. The fair value of stock-based compensation and other stock-based payments made in exchange for goods and services is recorded as compensation expense, or a cost of the goods or services acquired in exchange, and a contribution to shareholders' equity during the period in which the stock-based compensation or stock-based payments vest.

### Revenue

Revenue is recognized in the period during which title to the goods sold passes to the purchaser, which is generally when the goods are shipped. Revenue is reported net of estimated returns, discounts and rebates.

### Income Taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

### 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 that the assumed proceeds from the exercise of stock options are used to purchase common shares

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the company's management to make estimates and assumptions 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 estimates are made in the determination of allowances for doubtful accounts receivable, the net realizable value of inventories, the useful lives of plant and equipment and the reversal dates of future income tax assets and liabilities.

### Recently Issued Accounting Pronouncements

**Goodwill and Intangible Assets –** The CICA issued Handbook Section 3064 – Goodwill and Intangible Assets – which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets effective with the company's year ending March 31, 2010. The application of this standard is not expected to have a material effect on the company's consolidated financial statements

**International Financial Reporting Standards** – The CICA has discussed plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The company is monitoring and reviewing CICA plans to make the transition to IFRS. The company has not yet determined the impact on its consolidated financial statements.

## 3. FINANCIAL INSTRUMENTS

The company has various financial instruments including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and term loans. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Accounts receivable and all financial liabilities are carried at amortized cost. The fair values of these financial instruments approximate their carrying values.

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Accounts receivable are the result of sales to a relatively wide customer base, primarily in North America. The company only deals with customers that it considers creditworthy. At March 31, 2009 $14,973 of accounts receivable were between 31 and 60 days past due and $46,189 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.

The company's bank indebtedness and term loan are at interest rates that fluctuate with market interest rates. At the levels of indebtedness at March 31, 2009, a 1% increase in the annual rate of interest would cause interest expense to increase and operating cash flows to decrease by $7,190 per year.

Portions of the company's cash, accounts receivable and accounts payable 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

**(Canadian Dollars)**

## 3. FINANCIAL INSTRUMENTS (continued)

financial assets than US dollar liabilities. Over the past year, the exposure ranged from US$105,000 to US$146,000 and averaged approximately US$129,000 (calculated on a quarterly basis). Each change of 1% (e.g., a change from US$1.00 = Cdn$1.20 to Cdn$1.21) 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$1,000 on an exposure of US$100,000. During the year ended March 31, 2009, the company realized foreign exchange gains of $24,866 (2008 - $11,002 loss). The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US suppliers.

## 4. INVENTORY

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Raw materials | 599,736 | 523,153 |
| Finished goods | 230,344 | 202,544 |
| Total inventory | 830,080 | 725,697 |

## 5. PLANT AND EQUIPMENT

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| | $ | $ | $ | $ | $ | $ |
| Factory equipment | 4,341,083 | 1,694,871 | 2,646,212 | 4,243,683 | 1,442,641 | 2,801,042 |
| Leasehold improvements | 41,459 | 32,619 | 8,840 | 41,459 | 27,190 | 14,269 |
| Office equipment | 95,418 | 74,634 | 20,784 | 105,210 | 77,708 | 27,502 |
| Total plant and equipment | 4,477,960 | 1,802,124 | 2,675,836 | 4,390,352 | 1,547,539 | 2,842,813 |

Included in factory equipment are assets costing $263,291 (2008– $347,004) that had not been put into use at year-end.

## 6. BANK INDEBTEDNESS

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 to 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 0.5% 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.

**(Canadian Dollars)**

## 7. TERM LOANS

| Final due date | Monthly principal repayment | 2009 | 2008 | Interest rate |
|---|---|---|---|---|
| | $ | $ | $ | |
| August 16, 2010 | 7,881 | 133,998 | 228,570 | Prime plus 0.75% |
| August 8, 2008 | 5,834 | - | 29,130 | Prime plus 0.75% |
| Total | | 133,998 | 257,700 | |
| Current portion | | 94,572 | 123,702 | |
| Long-term portion | | 39,426 | 133,998 | |

The term loans are from a Canadian chartered bank. As part of its agreement with the bank, the company is required to maintain earnings before interest expense, income tax and depreciation of 1.25 times the current portion of long-term debt plus interest expense, calculated on a rolling four quarter basis. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral for the term loans.

Minimum term loan principal repayments are as follows:

| | $ |
|---|---|
| Year ending March 31, 2010 | 94,572 |
| 2011 | 39,426 |
| | 133,998 |

## 8. INCOME TAXES

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

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Plant and equipment | 444,081 | 446,625 |
| Non-capital losses carried forward | (53,965) | (83,281) |
| Other tax deductions carried forward | (4,136) | (3,153) |
| Total future income tax liabilities | 385,980 | 360,191 |

**(Canadian Dollars)**

## 8. INCOME TAXES (continued)

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

| | 2009 | 2008 |
|---|---|---|
| Combined statutory rate | 30.63% | 33.72% |
| | $ | $ |
| Income tax expense based on the statutory rates | 58,005 | 23,084 |
| Tax effect of expenses that are not deductible for income tax purposes | 6,544 | 5,597 |
| Effect of reductions in the statutory tax rates | (38,760) | (55,601) |
| Income tax expense (recovery) for the year | 25,789 | (26,920) |

The company has non-capital losses available to reduce future taxable income of $215,858 The value of these losses is offset against future income tax liabilities. The losses expire as follows:

| | $ |
|---|---|
| March 31, 2010 | 157 |
| 2027 | 97,229 |
| 2028 | 113,380 |
| 2029 | 5,092 |

## 9. Capital Disclosures

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.

**(Canadian Dollars)**

## 10. SHARE CAPITAL

**Authorized**

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

| **Issued** | Common Shares | | Warrants to Purchase Common Shares | |
|---|---|---|---|---|
| | Number | Ascribed value | Number | Ascribed value |
| | | $ | | $ |
| Outstanding at March 31, 2007 | 10,003,800 | 2,038,836 | - | - |
| Issued for cash, net of issue costs of $7,469 | 1,060,000 | 60,867 | 1,060,000 | 32,364 |
| Outstanding at March 31, 2008 and 2009 | 11,063,800 | 2,099,703 | 1,060,000 | 32,364 |

During the year ended March 31, 2008, the company issued 1,060,000 units at $0.095 per unit for gross proceeds of $100,700. Each unit comprises one common share and one warrant. Each warrant entitles the holder to purchase one common share at $0.125 per share until July 17, 2012. The fair value ascribed to the warrants of $32,364 was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4.66%, a dividend yield of 0%, expected warrant life of 5 years and a volatility of 47%..

Four directors of the company (including two directors who are also officers) purchased 1,000,000 of the units. The pricing of the units and the terms and pricing of the warrants forming part of the units were determined in accordance with the policies of the TSX Venture Exchange.

**Stock Option Plan**

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

Stock options were granted, exercised and forfeited as follows:

| | Number of shares subject to option | Weighted average exercise price |
|---|---|---|
| | | $ |
| Outstanding at March 31, 2007 | 1,145,000 | 0.20 |
| Options expired | (410,000) | 0.12 |
| Options forfeited | (75,000) | 0.24 |
| Options granted | 800,000 | 0.10 |
| Outstanding at March 31, 2008 | 1,460,000 | 0.17 |
| Options expired | (100,000) | 0.15 |
| Outstanding at March 31, 2009 | 1,360,000 | 0.17 |

The weighted average grant date fair value of options granted during the year ended March 31, 2008 was $0.0439 per share. The fair value of the options granted is charged to earnings based on the

**(Canadian Dollars)**

## 10. SHARE CAPITAL (continued)

vesting schedule, typically over 21 months. Stock based compensation expense for the year ended March 31, 2009 was $17,560 (2008 – $4,842).

The fair value of the options granted during the year ended March 31, 2008 was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 2.92%, a dividend yield of 0%, expected option lives of 4 years and a volatility of 52.9%.

The options outstanding at March 31, 2009 expire as follows:

| Expiry date | Total number of shares subject to option | Weighted average remaining contractual life | Weighted average exercise price of all options | Number of shares subject to options that are vested | Weighted average exercise price of vested options |
|---|---|---|---|---|---|
| July 7, 2009 | 560,000 | 0.3 years | $0.27 | 560,000 | $0.27 |
| March 12, 2013 | 800,000 | 3.9 years | $0.10 | 500,000 | $0.10 |
| | 1,360,000 | 2.4 years | $0.17 | 1,060,000 | $0.19 |

Subsequent to March 31, 2009, the options expiring on July 7, 2009 expired without being exercised.

### 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 2009. 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.

## 11. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2009, the company incurred $9,519 (2008 – $12,910) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. $9,519 (2008 – $6,672) of the fees are included in professional fees and $ nil (2008 – $6,238) are included in share issuance costs. At March 31, 2009 accounts payable and accrued liabilities include $ nil (2008 – $2,173) due to the firm. The fees are at rates comparable to those charged to un-related parties.

**(Canadian Dollars)**

### 12. 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, 2009, the company had domestic sales in Canada of $4,487,319 (2008 – $4,515,885) and export sales to Germany of $24,225 (2008 – $48,450) and the United States of $1,491,764 (2008 – $1,175,101). During the year ended March 31, 2009, the company had sales to two customers of $1,484,602 (2008 – one customer, $742,841) each of whom represented more than 10% of sales.

### 13. LEASE COMMITMENTS

The company has entered into operating lease agreements for premises which expire in November 2010 and June 2014. Future minimum lease payments are as follows:

| | $ |
|---|---|
| Year ending March 31, 2010 | 270,401 |
| 2011 | 238,308 |
| 2012 | 165,830 |
| 2013 | 170,272 |
| 2014 | 171,752 |
| 2015 | 42,938 |