# WestBond Enterprises Corporation

## Quarterly Report
## June 30, 2003

| BC FORM 51-901F | | | | |
|---|---|---|---|---|
| Incorporated as part of : Schedules A, B and C | | | | |
| **ISSUER DETAILS**<br>NAME OF ISSUER<br>**WestBond Enterprises Corporation** | | FOR QUARTER ENDED<br>June 30, 2003 | | DATE OF REPORT<br>YYYY / MM / DD<br>2003 / 08 / 26 |
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| ***CERTIFICATE***<br>*The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.* | | | | |
| DIRECTOR'S SIGNATURE<br>*"Gennaro Magistrale"* | | PRINT FULL NAME<br>Gennaro Magistrale | | DATE SIGNED<br>YYYY / MM / DD<br>2003 / 08 / 26 |
| DIRECTOR'S SIGNATURE<br>*"Owen Granger"* | | PRINT FULL NAME<br>Owen Granger | | DATE SIGNED<br>YYYY / MM / DD<br>2003 / 08 / 26 |

**WESTBOND ENTERPRISES CORPORATION**
***Quarterly Report for the Quarter Ended June 30, 2003***

## Schedule A: Financial Information

The information required by Schedule A of Form 51-901F is presented in the attached interim consolidated financial statements for June 30, 2003.

## Schedule B: Supplementary Information

1. The analysis (breakdown) of expenses (cost of sales, selling expenses and general and administrative expenses) required by Schedule B is shown on the consolidated statements of operations and deficit included as part of Schedule A.
2. Related party transactions are disclosed in note 4 to the interim consolidated financial statements included as part of Schedule A.
3. The following stock options were granted by the Company during the three month period ended June 30, 2003:

| Date of Grant | Number of Shares Optioned | Optionee | Exercise Price | Expiry Date |
|---|---|---|---|---|
| May 6, 2003 | 100,000 | Frank D. Barker, Director | $0.15 | May 6, 2008 |
| May 6, 2003 | 100,000 | D. Dan Dawson, Director | $0.15 | May 6, 2008 |

   No other securities were issued by the Company during the three month period ended June 30, 2003.

4. The authorized, issued and outstanding share capital of the Company at June 30, 2003 are summarized on the consolidated balance sheets included as part of Schedule A. There are no warrants or other convertible securities of the Company outstanding at June 30, 2003, other than stock options which are summarized in note 3 to the interim consolidated financial statements included as part of Schedule A. No shares of the Company are subject to escrow or pooling agreements.
5. The directors and officers of the Company are:

| | |
|---|---|
| Gennaro Magistrale | Director and President |
| Owen Granger, CMA | Director and Secretary/Treasurer |
| J. Douglas Seppala | Director |
| Frank D. Barker | Director |
| D. Dan Dawson | Director |

## Schedule C: Management Discussion

## Description of Business

The Company is a converter of disposable paper and paper/polyethylene laminated products. A description of the Company and its products is contained in its 2003 Annual Report which was distributed to shareholders in August 2003. A pdf version of the 2003 Annual Report may be downloaded from the SEDAR web site at sedar.com. For a printed copy, please contact the Company.

## Operating Results

Net income for the three months ended June 30, 2003 was $76,431, or $0.01 per share. This is approximately 10% higher than we had projected for the period and approximately the same as for the same period last year.

### *Sales*

Sales for the three months ended June 30, 2003 totalled $1,140,210 compared to $798,788 for the same period last year. This represents an increase in sales of $341,422 or 43%. Personal hygiene products make up $317,535 of this increase and other products make up the rest. As expected, personal hygiene products, which make up 39.1% of the volume for 2003, now surpass all other sales categories.

The gross profit ratio from the personal hygiene products is not as high as the other products. Accordingly, the gross profit for the three months ended June 30, 2003 was only 17.3% higher than for 2002. We anticipate higher unit prices and margins from future increases in sales volumes of the personal hygiene products.

The focus for the next six months will be to increase distribution and sales for all product categories, but mainly the personal hygiene line.

### *Cost of Sales*

Materials costs were 52.6% of sales during the three month period ended June 30, 2003, compared to 43.9% during the same period last year. Our normal operating range for materials is 48% to 51% and the average for the year ended March 31, 2003 was 49.2%. About one third of the increase over our normal range for the three months ended June 30, 2003 is caused by sales price concessions given to a major purchaser of personal hygiene products and the remaining two thirds by higher paper costs. Paper prices continue to be affected by changes is the US/Cdn dollar exchange rate and unpredictible supply and demand. Our margins, however, are sufficiently high to accommodate these fluctuations profitably and remain well within expectations.

The labour component in cost of sales was 7.5% of sales in 2003 and 7.4% in 2002. The labour fluctuation is within our usual operating ranges. Overhead, as a percentage of sales, continues to show improvement. This is the result of producing higher sales from existing production capacity.

### *Selling Expenses*

Shipping costs are higher during 2003, at 5.4% of sales, compared to 5.0% in 2002. The higher costs are a result of shipping to customers farther away from the plant. Commissions paid on sales of the personal hygiene products are higher than for our other products, which also contributed to the increase in selling expenses.

### *General and Administrative Expenses*

General and administrative expenses were higher in 2003 than in 2002 by $14,291. The decrease in administration and office expenses was caused by US/Cdn dollar exchange rate gains of $5,779 in 2003, compared to losses of $1,536 in 2002. Corporate promotion activities increased during 2003 as a result of increased investor relations activities, which are discussed below. Interest expenses are higher due to higher interest rates and to increased loan financing. Interest expense will continue to increase as new term loans are received. Professional fees are higher in 2003 than 2002 as a result of legal fees related to the shareholder rights plan. Higher administrative salaries in 2003 are due to part-time staff working more and to salary increases.

## Liquidity, Financial Position and Capital Resources

The Company's operating cash flows averaged $49,407 per month during the three months ended June 30, 2003, before accounting for fluctuations in non-cash working capital. The Company also has a revolving bank loan facility of $425,000, of which $324,389 was drawn at June 30, 2003. The revolving loan facility is used mainly to finance operating working capital, which fluctuates significantly, and may also be used for equipment purchases.

In August 2003, the Bank of Nova Scotia replaced the $245,000 remaining on the term loan from the Business Development Bank of Canada with a new $350,000 term loan. In addition to the increased principal, the rate of interest was dropped by 0.75% per annum and the personal guarantees by two directors and officers were released. The additional principal was used to pay for ongoing equipment expansions.

A second additional term loan of $400,000 from the Bank of Nova Scotia was received at the end of August 2003. The proceeds from this loan will used to purchase equipment that will provide additional capacity for the personal hygiene products. Principal repayments on the term loans will total $20,683 per month, effective September 2003.

## Investor Relations Activities

Quinton Investment Services Corp. and Syndicated Capital Corporation provided investor relations services for the company during the three months ended June 30, 2003, at fees totalling $10,000 for the period. Quinton has increased awareness of the company by distributing articles and other information about the company to selected investors and brokers and continues to increase awareness of the company by discussing the company with selected investors and brokers. Syndicated Capital, who started in June 2003, concentrate their efforts on increasing awareness of the company amongst institutional investors.

# WESTBOND ENTERPRISES CORPORATION
## Consolidated Balance Sheets
## (unaudited)

| | June 30, 2003 | March 31, 2003 |
|---|---|---|
| | $ | $ |
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 1,815 | 10,593 |
| Accounts receivable | 592,506 | 454,967 |
| Inventory | 619,522 | 621,217 |
| Prepaid expenses | 18,635 | 22,530 |
| | 1,232,478 | 1,109,307 |
| **PLANT AND EQUIPMENT** | 1,454,172 | 1,435,925 |
| **FUTURE INCOME TAX ASSETS** | - | 24,103 |
| | 2,686,650 | 2,569,335 |
| **L I A B I L I T I E S** | | |
| **CURRENT LIABILITIES** | | |
| Bank indebtedness | 324,389 | 341,370 |
| Accounts payable and accrued liabilities | 465,975 | 387,570 |
| Current portion of term loans (note 2) | 158,196 | 158,196 |
| | 948,560 | 887,136 |
| **TERM LOANS** (note 2) | 222,069 | 261,618 |
| **FUTURE INCOME TAX LIABILITIES** | 19,009 | - |
| | 1,189,638 | 1,148,754 |
| **S H A R E H O L D E R S' E Q U I T Y** | | |
| **SHARE CAPITAL** (note 3) | | |
| Authorized | | |
| - 50,000,000 common shares without par value | | |
| Issued and outstanding | | |
| - 9,526,967 shares | 1,967,516 | 1,967,516 |
| **DEFICIT** | (470,504) | (546,935) |
| | 1,497,012 | 1,420,581 |
| | 2,686,650 | 2,569,335 |

**APPROVED BY THE BOARD OF DIRECTORS:**

*"Gennaro Magistrale"*

*"Owen Granger"*

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

# WESTBOND ENTERPRISES CORPORATION
## Consolidated Statements of Operations and Deficit
## (unaudited)

| | Three months ended June 30, 2003 | 2002 |
|---|---|---|
| | $ | $ |
| **Sales** | 1,140,210 | 798,788 |
| **Cost of Sales** | | |
| Materials | 600,163 | 350,817 |
| Labour | 85,469 | 58,862 |
| Variable overhead | 36,787 | 29,278 |
| Fixed overhead | 43,187 | 39,491 |
| Depreciation and amortization | 25,661 | 22,789 |
| | 791,267 | 501,237 |
| **Gross Profit** | 348,943 | 297,551 |
| **Expenses** | | |
| **Selling and marketing** | | |
| Shipping | 62,027 | 40,119 |
| Salaries, commissions and employee benefits | 23,155 | 12,964 |
| Other | 6,767 | 1,005 |
| | 91,949 | 54,088 |
| **General and administrative** | | |
| Administration and office | 14,547 | 21,052 |
| Corporate promotion | 11,187 | 8,055 |
| Interest on term loans | 7,185 | 3,999 |
| Interest on other debt | 5,089 | 2,899 |
| Professional fees | 11,952 | 8,368 |
| Salaries and employee benefits | 87,491 | 78,787 |
| | 137,451 | 123,160 |
| **Income for the Period before Future Income Tax Expense** | 119,543 | 120,303 |
| **Future Income Tax Expense** | 43,112 | 43,273 |
| **Net Income for the Period** | 76,431 | 77,030 |
| **Deficit - Beginning of Period** | (546,935) | (744,251) |
| **Deficit - End of Period** | (470,504) | (667,221) |
| **Net Income 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
## (unaudited)

| | Three months ended June 30, 2003 | 2002 |
|---|---|---|
| | $ | $ |
| **Cash Flows from Operating Activities** | | |
| Net income for the period | 76,431 | 77,030 |
| Adjustments to reconcile net income to cash flows from operating activities | | |
| - depreciation and amortization | 28,677 | 25,609 |
| - future income tax expense | 43,112 | 43,273 |
| | 148,220 | 145,912 |
| Net change in non-cash working capital related to operating activities | (53,544) | 1,321 |
| | 94,676 | 147,233 |
| **Cash Flow from Investing Activity** | | |
| Purchase of plant and equipment | (46,924) | (103,404) |
| **Cash Flows from Financing Activities** | | |
| Term loan proceeds | - | 47,282 |
| Repayment of term loans | (39,549) | (24,549) |
| (Decrease) increase in bank indebtedness | (16,981) | 64,501 |
| | (56,530) | 87,234 |
| **(Decrease) Increase in Cash and Cash Equivalents** | (8,778) | 131,063 |
| **Cash and Cash Equivalents - Beginning of Period** | 10,593 | 514 |
| **Cash and Cash Equivalents - End of Period** | 1,815 | 131,577 |
| **Interest Paid** | 12,239 | 6,669 |

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

# WESTBOND ENTERPRISES CORPORATION
## Notes to the Interim Consolidated Financial Statements
## June 30, 2003
## (unaudited)

### 1. Interim Period Reporting

While the information presented in these interim consolidated financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to the fair presentation of the interim periods reported. As certain note information has been condensed or omitted, these financial statements should only be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2003.

### 2. Bank Indebtedness

During the three months ended June 30, 2003 the company's revolving bank loan facility was increased to $425,000 and the personal guarantees of the facility by two directors and officers were released. A fixed and floating charge on substantially all of the company's assets remains pledged as collateral for the bank indebtedness.

### 3. Term Loans

Subsequent to June 30, 2003, the company received an additional term loan of $350,000 repayable over five years at $5,834 per month plus interest at bank prime rate plus 1.5 % per annum. $245,000 of the loan proceeds were used to repay the principal outstanding on the term loan due August 15, 2007. Additionally, the personal guarantees of the term loans by two directors and officers were released.

Also subsequent to June 30, 2003, the company received a second additional term loan facility of $400,000 repayable over five years at $6,667 per month plus interest at bank prime plus 1.5% per annum. The loan proceeds, when received, will be used to purchase factory equipment.

A fixed and floating charge on substantially all of the company's assets remains pledged as collateral for all of the term loans.

### 4. Stock Options

During the three months ended June 30, 2003, options to purchase 200,000 shares at $0.15 per share until May 6, 2008 were granted.

A total of 1,100,000 employee and director stock options are outstanding at June 30, 2003.

| Number of shares under option | | Price per share | Expiry date | Notes |
|---|---|---|---|---|
| 470,000 | (vested) | $0.15 | June 3, 2004 | |
| 215,000 | (vested) | $0.12 | December 12, 2007 | |
| 215,000 | (not vested) | $0.12 | December 12, 2007 | 53,750 options vest each quarter |
| 50,000 | (vested) | $0.15 | May 6, 2008 | |
| 150,000 | (not vested) | $0.15 | May 6, 2008 | 25,000 options vest each quarter |

The company applies the intrinsic value based method of accounting for stock-based compensation awards granted to employees and directors. Accordingly, no compensation expense has been recognized for stock options granted to employees and directors. Had compensation expense been determined based on the fair value at the grant date for stock options granted after March 31, 2002, consistent with the fair value based method of accounting for stock based compensation, the company's net income and earnings per share would have been reduced to the pro forma amounts indicated below. The effect of stock options granted before April 1, 2002 is not reflected in the pro-forma amounts.

| | | Three months ended June 30 | |
|---|---|---|---|
| | | 2003 | 2002 |
| Net income | As reported | $76,431 | $77,030 |
| | Pro forma | $66,191 | $77,030 |
| Net income per share, basic and diluted | As reported | $0.01 | $0.01 |
| | Pro forma | $0.01 | $0.01 |

The fair value of the options granted during the period was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4.08%, a dividend yield of 0%, an expected option life of 4 years and volatility of 106%. The fair value of the options granted is charged to pro forma earnings over the vesting period.

### 4. Related Party Transactions

During the three months ended June 30, 2003, the company incurred $8,296 (2002 - $4,119) in legal fees in the normal course of operations with firms with which a director of the company is associated. The fees are included in legal fees. At June 30, 2003 accounts payable and accrued liabilities include $7,715 (2002 - $2,593) due to the firms.