



# **WestBond Enterprises Corporation**

## **Quarterly Report September 30, 2010**

### **Management Discussion and Analysis**

dated November 25, 2010 to accompany the interim consolidated financial statements for the three and six month periods ended September 30, 2010

**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 or the “Company,” are a paper converter that supplies disposable paper products to many markets. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2010 Annual Report. A pdf version of the 2010 Annual Report may be downloaded from our web site at [www.westbond.ca](http://www.westbond.ca) or from the SEDAR web site at [www.sedar.com](http://www.sedar.com). For a printed copy, please contact the Company. Additional information on the Company is also available on our web site and on the SEDAR web-site.

### **Discussion of Operations and Financial Condition**

You should refer to our interim consolidated financial statements for the three and six month periods ended September 30, 2010 and our consolidated financial statements for the year ended March 31, 2010 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. You should also refer to the Management Discussion and Analysis that was included in our 2010 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since July 19, 2010, the date of the Management Discussion and Analysis in the 2010 Annual Report, is not repeated here.

Sales were \$1,604,808 for the three months ended September 30, 2010, which is 4% higher than for the three months ended June 30, 2010 and 2% less than for the three months ended September 30, 2009. Net income decreased by 36% to \$10,769 (\$0.001 per share) for the period, compared to \$17,710 (\$0.002 per share) for the three months ended September 30, 2009. This year's results are less profitable than the same period last year because of higher shipping costs to new customers in eastern Canada.

The graph on the next page shows the trends over the past eight quarters.

### **WestBond Enterprises Corporation**

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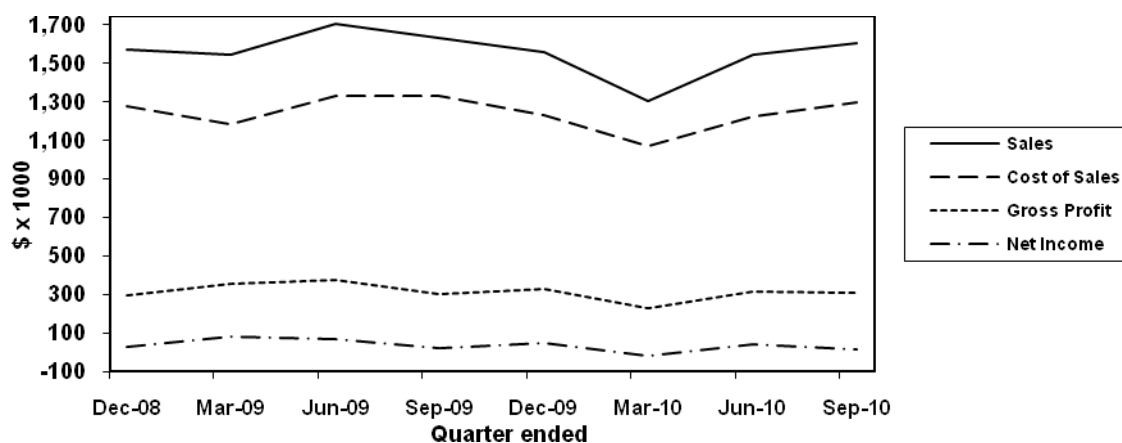
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## Summary of Quarterly Results

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.

Cdn\$ x 1,000	Quarters ended							
	Sep 30 2010	Jun 30 2010	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008
Sales	1,604	1,542	1,301	1,559	1,632	1,706	1,543	1,572
Cost of sales	1,299	1,227	1,072	1,231	1,329	1,330	1,188	1,278
Gross profit	305	315	229	328	303	376	355	294
Selling and marketing expenses	141	139	117	127	117	133	120	120
General and administrative expenses	149	124	140	137	159	157	148	135
Net income (loss) before taxes	15	52	(28)	64	27	86	87	39
Income tax expense (recovery)	4	12	(6)	18	10	23	9	12
Net income (loss)	11	40	(22)	46	17	63	78	27
Earnings (loss) per share, basic and diluted - Cdn\$	0.001	0.004	(0.002)	0.004	0.002	0.006	0.007	0.002
<b>Sales - % change over previous quarter</b>	<b>4.1</b>	<b>18.5</b>	<b>-16.5</b>	<b>-4.5</b>	<b>-4.4</b>	<b>10.6</b>	<b>-1.8</b>	<b>8.1</b>
<b>Costs, expenses and net income - % of Sales</b>								
Cost of sales	80.9	79.6	82.4	78.9	81.4	78.0	77.0	81.3
Selling and marketing expenses	8.8	9.0	9.0	8.2	7.1	7.8	7.8	7.6
General and administrative expenses	9.3	8.0	10.8	8.8	9.8	9.2	9.6	8.6
Income tax expense	0.3	0.8	-0.5	1.2	0.6	1.3	0.6	0.8
Net income	0.7	2.6	-1.7	2.9	1.1	3.7	5.0	1.7



## Sales

Sales for the three months ended September 30, 2010 are 1.7% lower than for the same period last year but are 4.1% higher than the previous quarter, ended June 30, 2010. The June 2009 quarter showed record high sales for WestBond but competition from the US, empowered by the cheaper US dollar, and other factors caused our sales to decline for the three quarters that followed. We are now enjoying a positive reversal of that trend.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2010	2009		2010	2009	
	\$	\$		\$	\$	
Personal hygiene	663,765	808,968	-17.9%	1,338,026	1,618,430	-17.3%
Clinical and long-term care	859,577	823,230	4.4%	1,667,478	1,670,501	-0.2%
Other	81,466	-		141,011	49,716	183.6%
	1,604,808	1,632,198	-1.7%	3,146,515	3,338,647	-5.8%

## Cost of Sales

Direct costs (labour and materials) were lower, as a percentage of sales, in 2010 than in 2009. Variable and fixed overhead were higher, as a percentage of sales, because of the lower sales total.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
	% of sales	% of sales	% of sales	% of sales
Materials	54.7%	57.1%	54.3%	55.7%
Labour	8.5%	8.7%	8.3%	8.5%
Variable overhead	7.2%	6.2%	7.0%	6.1%
Fixed overhead	6.8%	5.5%	6.9%	5.5%
Depreciation	3.8%	3.9%	3.8%	3.9%
Gross Margin	19.0%	18.6%	19.7%	20.3%

Our normal operating range for materials has been 51% to 55% and the average for the year ended March 31, 2010 was 54%. Materials cost fluctuations are due to variations in the yield factors (the amount of product that a certain weight of paper will produce), paper prices and product mix. The decrease in this materials cost to sales ratio for the 2010 periods compared to 2009 is mainly due to favourable paper prices.

The labour fluctuations, which are also subject to shifts in the product mix, are within our usual operating ranges. We have increased our wage rates in order to retain the more efficient employees and to attract good machine operators. The inability to hire or retain production employees can result in lost sales.

## Selling Expenses

Selling expenses were higher during 2010, at 8.9% of sales, compared to 7.5% for 2009. The increase is caused by higher freight rates.

## General and Administrative Expenses

General and administrative expenses were lower in the six months ended September 30, 2010 than the same period in 2009 by \$42,872. Administration and office expense is lower because of foreign exchange gains of \$4,175 realized in 2010, compared to a loss of \$23,621 in 2009. Salaries and employee benefits are lower because of stock based compensation expense in 2009. Interest is lower because of lower levels of bank indebtedness and long-term debt.

During the six months ended September 30, 2010 professional fees include \$6,326 (2009 – \$14,434) 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.

## Liquidity, Financial Position and Capital Resources

Our financial position improved during the six months ended September 30, 2010. We had working capital of \$927,075 at September 30, 2010, compared to \$798,168 at March 31, 2010. Our operating cash flows were \$189,759 during the six months ended September 30, 2010, an average of \$31,627 per month, compared to an average of \$35,338 per month during the year ended March 31, 2010, before accounting for fluctuations in non-cash working capital.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency and to pay off bank debt. We repaid the term loan outstanding at March 31, 2010 of \$39,426 during the six months ended September 30, 2010.

We have a revolving bank loan facility of \$1,000,000, of which \$361,043 was used at September 30, 2010. 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 \$200,000 and accounts payable by an additional \$200,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility.

We have ordered new equipment that will let us take advantage of lower priced raw materials. This equipment is expected to cost approximately \$350,000 and should be installed by the end of March 2011. We also plan to spend approximately \$200,000 on other equipment expansions and improvements over the next twelve months. We may acquire additional equipment, if worthy new product opportunities arise. We plan to financing this additional equipment through operating cash flow and term loans.

### **New Accounting Policies**

There are no new accounting policies that are effective for our current fiscal year that are expected to have a material effect on our consolidated financial statements.

We will adopt International Financial Reporting Standards ("IFRS") effective April 1, 2011. The differences between IFRS and Canadian GAAP that could have the most significant impact on our financial statements are described in our management discussion and analysis for the year ended March 31, 2010.

Key accounting personnel have completed IFRS training courses. Over the next month we will continue to evaluate IFRS in detail and consider their application to our financial statements. We plan to have this phase of our transition completed by December 31, 2010. During the three months ending March 31, 2011, we will prepare the reconciliations of Canadian GAAP to IFRS for our March 31, 2010 balance sheet and for each of the quarters in the year ending March 31, 2011. We are on target to issue our financial statements in accordance with IFRS as issued by the International Accounting Standards Board, commencing with the quarter ending June 30, 2011.

### **Share Capital**

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

	<u>November 25, 2010</u>
Authorized common shares without par value	Unlimited
Issued common shares	11,063,800
Shares issuable on 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 shareholder rights plan (the "Plan") is meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the Company's annual general meeting in 2012, subject to further renewal. The Plan, in effect, allows holders of common shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction that is not a Permitted Bid under the Plan. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over bid circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.



## ***WestBond Enterprises Corporation***

### ***Notice to Reader***

The accompanying interim consolidated financial statements of WestBond Enterprises Corporation for the three and six month periods ended September 30, 2010 have been prepared by and are the responsibility of the company's management. They are unaudited and have not been reviewed by independent auditors.

**WESTBOND ENTERPRISES CORPORATION**  
**Consolidated Balance Sheets**  
(Unaudited - See Notice to Reader)  
(Canadian Dollars)

	<b>September 30</b>	<b>March 31</b>
	<b>2010</b>	<b>2010</b>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	225,127	276,008
Accounts receivable	750,446	454,774
Inventory	952,396	994,256
Prepaid expenses	52,788	44,432
	<u>1,980,757</u>	<u>1,769,470</u>
<b>PLANT AND EQUIPMENT</b>	<u>2,459,223</u>	<u>2,521,077</u>
	<u><u>4,439,980</u></u>	<u><u>4,290,547</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	361,043	475,000
Accounts payable and accrued liabilities	692,639	456,876
Current portion of term loans	-	39,426
	<u>1,053,682</u>	<u>971,302</u>
<b>FUTURE INCOME TAX LIABILITIES</b>	<u>447,237</u>	<u>431,015</u>
	<u><u>1,500,919</u></u>	<u><u>1,402,317</u></u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
Authorized - unlimited common shares without par value		
Issued and outstanding - 11,063,800 shares	2,099,703	2,099,703
Warrants	32,364	32,364
<b>STOCK OPTIONS</b>	254,510	254,510
<b>RETAINED EARNINGS</b>	552,484	501,653
	<u>2,939,061</u>	<u>2,888,230</u>
	<u><u>4,439,980</u></u>	<u><u>4,290,547</u></u>

**APPROVED BY THE BOARD OF DIRECTORS:**




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

**WESTBOND ENTERPRISES CORPORATION**  
**Consolidated Statements of Operations, Comprehensive Income and Retained Earnings**  
(Unaudited - See Notice to Reader)  
(Canadian Dollars)

	Three months ended		Six months ended	
	September 30		September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Sales</b>	1,604,808	1,632,198	3,146,515	3,338,647
<b>Cost of Sales</b>				
Materials	878,349	931,449	1,709,682	1,859,742
Labour	135,701	141,934	260,330	282,834
Variable overhead	115,061	101,901	219,219	202,471
Fixed overhead	109,846	89,148	217,190	184,777
Depreciation	60,368	64,671	119,695	129,947
	<u>1,299,325</u>	<u>1,329,103</u>	<u>2,526,116</u>	<u>2,659,771</u>
<b>Gross Profit</b>	<u>305,483</u>	<u>303,095</u>	<u>620,399</u>	<u>678,876</u>
<b>Expenses</b>				
<b>Selling and marketing</b>				
Shipping	107,295	80,116	213,118	176,279
Salaries, commissions and employee benefits	28,672	30,143	58,000	63,816
Other	5,072	6,297	8,925	9,086
	<u>141,039</u>	<u>116,556</u>	<u>280,043</u>	<u>249,181</u>
<b>General and administrative</b>				
Administration and office	38,095	37,513	53,158	78,151
Corporate promotion	1,699	2,776	2,115	2,776
Interest on term loans	45	727	249	1,668
Interest on other debt	3,561	3,212	6,821	7,169
Professional fees	14,060	20,490	26,880	34,201
Salaries and employee benefits	91,779	94,470	184,080	192,210
	<u>149,239</u>	<u>159,188</u>	<u>273,303</u>	<u>316,175</u>
<b>Income for the Period before Taxes</b>	<u>15,205</u>	<u>27,351</u>	<u>67,053</u>	<u>113,520</u>
<b>Future Income Tax Expense</b>	<u>4,436</u>	<u>9,641</u>	<u>16,222</u>	<u>33,083</u>
<b>Net Income and Comprehensive Income for the Period</b>	10,769	17,710	50,831	80,437
<b>Retained Earnings</b>				
- Beginning of Period	<u>541,715</u>	<u>460,326</u>	<u>501,653</u>	<u>397,599</u>
- End of Period	<u><u>552,484</u></u>	<u><u>478,036</u></u>	<u><u>552,484</u></u>	<u><u>478,036</u></u>
<b>Earnings per Share, basic and diluted</b>	<u>0.001</u>	<u>0.002</u>	<u>0.005</u>	<u>0.007</u>

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

**WESTBOND ENTERPRISES CORPORATION**  
**Consolidated Statements of Cash Flows**  
(Unaudited - See Notice to Reader)  
(Canadian Dollars)

	Three months ended		Six months ended	
	September 30		September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>				
Net income for the period	10,769	17,710	50,831	80,437
Adjustments to reconcile net income to cash flows from operating activities				
- depreciation	61,892	66,746	122,706	134,210
- stock option expense	-	4,390	-	8,780
- future income tax expense	4,436	9,641	16,222	33,083
	<u>77,097</u>	<u>98,487</u>	<u>189,759</u>	<u>256,510</u>
Net change in non-cash working capital related to operating activities	<u>99,249</u>	<u>104,479</u>	<u>(13,062)</u>	<u>173,743</u>
	<u>176,346</u>	<u>202,966</u>	<u>176,697</u>	<u>430,253</u>
<b>Cash Flows from Investing Activities</b>				
Purchase of plant and equipment	<u>(33,958)</u>	<u>(13,664)</u>	<u>(74,195)</u>	<u>(57,935)</u>
<b>Cash Flows from Financing Activities</b>				
Repayment of term loans	(15,782)	(23,643)	(39,426)	(47,286)
Increase (decrease) in bank indebtedness	<u>1,043</u>	<u>(80,000)</u>	<u>(113,957)</u>	<u>(225,000)</u>
	<u>(14,739)</u>	<u>(103,643)</u>	<u>(153,383)</u>	<u>(272,286)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	127,649	85,659	(50,881)	100,032
<b>Cash and Cash Equivalents</b>				
- Beginning of Period	<u>97,478</u>	<u>165,632</u>	<u>276,008</u>	<u>151,259</u>
- End of Period	<u>225,127</u>	<u>251,291</u>	<u>225,127</u>	<u>251,291</u>
<b>Interest Paid</b>	<u>3,515</u>	<u>4,090</u>	<u>7,234</u>	<u>9,165</u>
<b>Non-Cash Investing Activities</b>				
(Decrease) increase in accounts payable related to purchase of plant and equipment	<u>(3,762)</u>	<u>5,400</u>	<u>(13,343)</u>	<u>(6,994)</u>

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



**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2010**  
**(Unaudited – See Notice to Reader)**

**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. These interim consolidated financial statements are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles. The accounting policies used and the methods of their application are the same as for the consolidated financial statements for the year ended March 31, 2010. 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, 2010.

**2. Share Capital**

**Stock Options** - The following stock options are outstanding at September 30, 2010.

Expiry date	Total number of shares under option	Weighted average remaining contractual life	Weighted average exercise price	Number of shares under option that are vested	Weighted average exercise price
March 12, 2013	800,000	2.4 years	\$0.100	800,000	\$0.100

**3. Related Party Transactions**

During the six months ended September 30, 2010, the company incurred \$6,326 (2009 – \$14,434) in legal fees in the normal course of operations with a firm in which a director of the company is a partner. The fees are included in professional fees and are at rates comparable to those charged to un-related parties.