# *WestBond Enterprises Corporation*

## *Quarterly Report*
## *September 30, 2012*

# Management Discussion and Analysis

**Dated November 23, 2012 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 2012**

**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 2012 Annual Report. A pdf version of the 2012 Annual Report may be downloaded from our web site at www.westbond.ca or from the SEDAR web site at 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, 2012 and our consolidated financial statements for the year ended March 31, 2012 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 2012 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since July 20, 2012, the date of the Management Discussion and Analysis in the 2012 Annual Report, is not repeated here.

Sales were $1,561,867 for the three months ended September 30, 2012, which is 2.5% higher than for the three months ended September 30, 2011 and 0.3% lower than for the three months ended June 30, 2012. We realized a profit of $11,400 ($0.001 per share) for the three months ended September 30, 2012, compared to $20,342 ($0.003 per share) for the three months ended September 30, 2011. The profit for the quarter ended September 30, 2012 is lower than the same period last year because of higher depreciation, selling and distribution expenses and foreign exchange losses, which were offset by lower materials costs.

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

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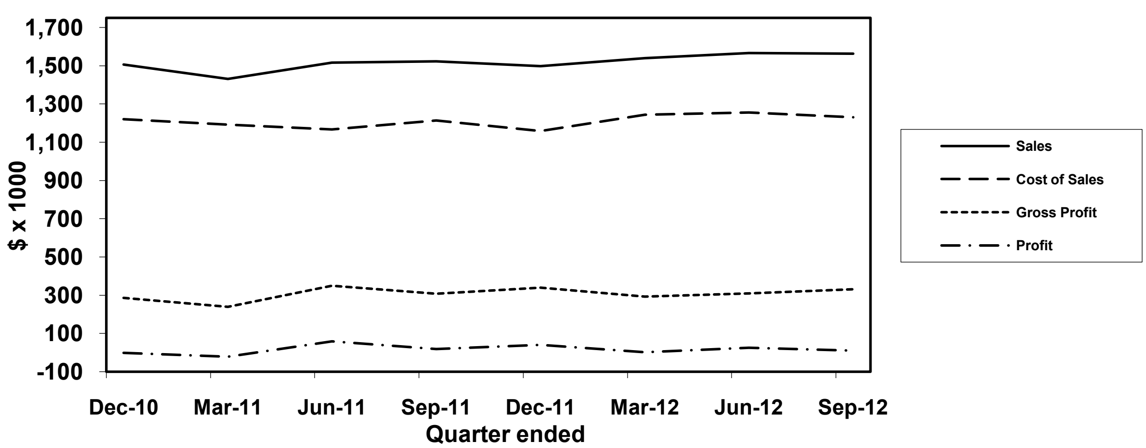
## Summary of Quarterly Results

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 International Financial Reporting Standards.

| Cdn$ x 1,000 | Quarters ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sep 30 2012 | Jun 30 2012 | Mar 31 2012 | Dec 31 2011 | Sep 30 2011 | Jun 30 2011 | Mar 31 2011 | Dec 31 2010 |
| Sales | 1,562 | 1,566 | 1,539 | 1,499 | 1,523 | 1,517 | 1,432 | 1,507 |
| Cost of sales | 1,231 | 1,256 | 1,245 | 1,159 | 1,215 | 1,167 | 1,192 | 1,221 |
| Gross profit | 331 | 310 | 294 | 340 | 308 | 350 | 240 | 286 |
| Selling and distribution expenses | 160 | 136 | 137 | 137 | 139 | 133 | 128 | 129 |
| General and administrative expenses | 137 | 138 | 146 | 139 | 146 | 132 | 133 | 144 |
| Other expenses (income) | 17 | - | 7 | 7 | (5) | 5 | 7 | 12 |
| Profit (loss) before tax | 17 | 36 | 4 | 57 | 28 | 80 | (28) | 1 |
| Income tax expense (recovery) | 6 | 10 | 1 | 15 | 8 | 21 | (7) | 1 |
| Profit (loss) | 11 | 26 | 3 | 42 | 20 | 59 | (21) | 0 |
| Earnings (loss) per share, basic and diluted - Cdn$ | 0.001 | 0.002 | 0.000 | 0.004 | 0.002 | 0.005 | (0.002) | 0.000 |
| **Sales - % change over previous quarter** | -0.3 | 1.8 | 2.7 | -1.6 | 0.4 | 6.0 | -5.0 | -6.1 |
| **Costs, expenses and profit - % of Sales** | | | | | | | | |
| Cost of sales | 78.8 | 80.2 | 80.9 | 77.3 | 79.8 | 77.0 | 83.2 | 81.0 |
| Selling and distribution expenses | 10.2 | 8.7 | 8.9 | 9.2 | 9.1 | 8.7 | 9.0 | 8.6 |
| General and administrative expenses | 8.8 | 8.8 | 9.5 | 9.3 | 9.6 | 8.7 | 9.3 | 9.5 |
| Other expenses (income) | 1.1 | 0.0 | 0.4 | 0.4 | -0.3 | 0.3 | 0.5 | 0.8 |
| Income tax expense | 0.4 | 0.6 | 0.1 | 1.0 | 0.5 | 1.4 | -0.5 | 0.1 |
| Profit | 0.7 | 1.7 | 0.2 | 2.8 | 1.3 | 3.9 | -1.5 | 0.0 |



***Sales***

Sales for the three months ended September 30, 2012 are 2.5% higher than for the same period last year and 0.3% lower than the previous quarter, ended June 30, 2012. Competition from low priced US and Chinese producers and the cheap US dollar continued to keep growth in the sales of and margins on our personal hygiene products at a lower level than we would like. The change over last year in clinical and long-term care and other products is primarily due to the timing of large orders placed by some of our customers.

| ***Sales*** | Three months ended September 30 | | Change over last year | Six months ended September 30 | | Change over last year |
|---|---|---|---|---|---|---|
| Product Line | 2012 $ | 2011 $ | | 2012 $ | 2011 $ | |
| Personal hygiene | 586,248 | 591,251 | -0.9% | 1,216,247 | 1,198,736 | 1.5% |
| Clinical and long-term care | 870,687 | 854,548 | 1.9% | 1,735,058 | 1,668,457 | 4.0% |
| Other | 104,932 | 77,390 | 35.6% | 176,858 | 173,093 | 2.2% |
| | 1,561,867 | 1,523,189 | 2.5% | 3,128,163 | 3,040,286 | 2.9% |

***Cost of Sales***

Materials costs, as a percentage of sales, were higher in the six months ended September 30, 2012 than in 2011 due to higher prices for raw materials. In the September 2012 quarter, we realized some favourable materials yields, which offset the higher prices. Our normal operating range for materials has been 51% to 55% and the average for the year ended March 31, 2012 was 52.5%.

Direct production labour is lower in 2012 than in 2011 because of increased efficiency made possible by new equipment and improvements to older equipment. Factory overhead labour and variable overhead were higher in 2012 than in 2011 because of higher equipment maintenance activity. Depreciation was higher in 2012 than in 2011 because of new equipment brought into production during the latter part of the year ended March 31, 2012.

| ***Cost of Sales*** | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | 2012 % of sales | 2011 % of sales | 2012 % of sales | 2011 % of sales |
| Materials | 52.9% | 54.5% | 53.7% | 53.1% |
| Production labour | 7.1% | 7.8% | 7.1% | 7.8% |
| Factory overhead labour | 4.3% | 4.0% | 4.3% | 4.1% |
| Variable overhead | 2.7% | 2.3% | 2.6% | 2.2% |
| Fixed overhead | 7.2% | 7.3% | 7.2% | 7.3% |
| Depreciation | 4.6% | 3.9% | 4.6% | 3.9% |
| Gross Margin | 21.2% | 20.2% | 20.5% | 21.6% |

***Selling Expenses***

Selling expenses were higher during 2012 than 2011, at 10.3% of sales for the three month period and 9.5% of sales for the six month period, compared to 9.1% and 8.9% for the respective periods last year. This was primarily caused by higher commissions and employee benefits.

***General and Administrative Expenses***

General and administrative expenses were similar in 2012 and 2011, with the exception of higher professional fees in 2012 for the audit of our transition to International Financial Reporting Standards and lower administrative staff costs.

During the six months ended September 30, 2012, the company incurred total short-term employee benefits of $161,746 (2011 – $164,409) to its key management personnel, comprising the directors and officers of the company, and incurred $5,854 (2011 – $6,326) of professional fees in the normal course of operations paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, a director of the company, is a partner. The professional fees are 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, 2012. We had working capital of $950,399 at June 30, 2012, compared to $814,951 at March 31, 2012. Our operating cash flows were $195,651 during the six months ended September 30, 2012, an average of $32,609 per month, compared to an average of $35,627 per month during the year ended March 31, 2012, 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 have a revolving bank loan facility of $1,000,000, of which $312,000 was used at September 30, 2012. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of $700,000 are not included in the calculation. Substantially all of the Company’s assets are pledged as collateral for the revolving bank loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as $300,000 and accounts payable by an additional $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.

We also have a $149,996 non-revolving bank loan that is repayable in monthly instalments of principal of $5,556 until August 30, 2013 (which was extended from November 30, 2012 in September 2012) at which time the remaining principal and interest is due. The loan bears interest at bank prime plus 1%, payable monthly. A fixed charge on the specific equipment purchased with the loan proceeds is pledged as collateral.

We currently plan to spend a total of approximately $200,000 on equipment expansions and improvements during the year ending March 31, 2013. 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.

## 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.

## 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.

| | November 23, 2012 |
|---|---|
| Authorized common shares without par value | Unlimited |
| Issued common shares | 11,063,800 |
| 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 was extended at the Company's annual general meeting on September 4, 2012 and will remain in effect until the Company's annual general meeting in 2015, 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.

## 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*

## *Notice to Reader*

The accompanying interim consolidated financial statements of WestBond Enterprises Corporation for the three and six month periods ended September 30, 2012 and 2011 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 Statements of Financial Position
### Canadian Dollars
### (Unaudited)

| | Notes | September 30 2012 $ | March 31 2012 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | | 2,603,620 | 2,690,079 |
| Lease deposits | | 22,433 | 22,433 |
| | | 2,626,053 | 2,712,512 |
| **Current Assets** | | | |
| Inventory | | 1,005,216 | 1,099,252 |
| Trade and other receivables | | 727,599 | 811,911 |
| Prepaid expenses | | 48,278 | 34,329 |
| Cash and cash equivalents | | 205,811 | 98,183 |
| | | 1,986,904 | 2,043,675 |
| **Total Assets** | | 4,612,957 | 4,756,187 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Common shares issued and outstanding | | 2,099,703 | 2,099,703 |
| Warrants | | - | 32,364 |
| Contributed surplus | | 286,874 | 254,510 |
| Retained earnings | | 692,696 | 654,803 |
| **Equity attributable to common share holders** | | 3,079,273 | 3,041,380 |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Deferred tax liability | | 497,179 | 486,083 |
| **Current Liabilities** | | | |
| Revolving bank loans | | 312,000 | 377,000 |
| Term bank loans | 4 | 149,996 | 177,776 |
| Trade and other payables | | 574,509 | 673,948 |
| | | 1,036,505 | 1,228,724 |
| **Total Liabilities** | | 1,533,684 | 1,714,807 |
| **Total Equity and Liabilities** | | 4,612,957 | 4,756,187 |

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

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

| | | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Notes | $ | $ | $ | $ |
| Sales | | 1,561,867 | 1,523,189 | 3,128,163 | 3,040,286 |
| Cost of sales | 5 | 1,230,864 | 1,215,184 | 2,486,431 | 2,382,677 |
| Gross Profit | | 331,003 | 308,005 | 641,732 | 657,609 |
| Selling and distribution expenses | 6 | 160,446 | 138,643 | 296,849 | 271,049 |
| General and administrative expenses | 7 | 136,860 | 145,727 | 274,470 | 277,790 |
| Operating Profit | | 33,697 | 23,635 | 70,413 | 108,770 |
| Foreign exchange losses (gains) | | 12,007 | (8,748) | 6,658 | (7,335) |
| Interest expense | | 4,704 | 4,265 | 10,544 | 7,948 |
| Profit Before Tax | | 16,986 | 28,118 | 53,211 | 108,157 |
| Income tax expense | | 5,586 | 7,776 | 15,318 | 28,373 |
| Profit and Comprehensive Income for the Period | | 11,400 | 20,342 | 37,893 | 79,784 |
| Weighted average shares outstanding | | 11,063,800 | 11,063,800 | 11,063,800 | 11,063,800 |
| Earnings per share, basic and fully diluted | | 0.001 | 0.002 | 0.003 | 0.007 |

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

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

| | Common Shares | Warrants | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **As at March 31, 2011** | 2,099,703 | 32,364 | 254,510 | 530,668 | 2,917,245 |
| **Profit for the period** | - | - | - | 79,784 | 79,784 |
| **As at September 30, 2011** | 2,099,703 | 32,364 | 254,510 | 610,452 | 2,997,029 |
| | | | | | |
| **As at March 31, 2012** | 2,099,703 | 32,364 | 254,510 | 654,803 | 3,041,380 |
| **Warrants expired, unexercised** | - | (32,364) | 32,364 | - | - |
| **Profit for the period** | - | - | - | 37,893 | 37,893 |
| **As at September 30, 2012** | 2,099,703 | - | 286,874 | 692,696 | 3,079,273 |

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

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

| | | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Notes | $ | $ | $ | $ |
| **Operating Activities** | | | | | |
| Profit (loss) for the period | | 11,400 | 20,342 | 37,893 | 79,784 |
| Adjustments to reconcile profit to cash flows from operating activities | | | | | |
| - depreciation | | 73,984 | 61,364 | 146,662 | 120,001 |
| - deferred income tax | | 7,121 | 7,776 | 11,096 | 28,373 |
| Cash flows from operating activities before changes in non-cash working capital | | 92,505 | 89,482 | 195,651 | 228,158 |
| (Increase) decrease in | | | | | |
| - inventory | | (108,676) | 104,957 | 94,036 | 65,169 |
| - trade and other receivables | | 134,891 | 375,803 | 84,312 | (94,035) |
| - prepaid expenses | | (25,458) | (16,186) | (13,949) | (16,569) |
| (Decrease) increase in | | | | | |
| - trade and other payables | | (52,132) | 12,914 | (97,325) | 18,367 |
| Net Cash Flow from Operating Activities | | 41,130 | 566,970 | 262,725 | 201,090 |
| **Investing Activities** | | | | | |
| Purchase of plant and equipment | 8 | (46,918) | (303,404) | (62,317) | (321,081) |
| **Financing Activities** | | | | | |
| Repayment of term loans | | (16,668) | - | (27,780) | - |
| (Decrease) increase in revolving bank loans | | (35,000) | (128,288) | (65,000) | 130,000 |
| Net Cash Flow from Financing Activities | | (51,668) | (128,288) | (92,780) | 130,000 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | (57,456) | 135,278 | 107,628 | 10,009 |
| **Cash and Cash Equivalents at the Beginning of the Period** | | 263,267 | 33,917 | 98,183 | 159,186 |
| **Cash and Cash Equivalents at the End of the Period** | | 205,811 | 169,195 | 205,811 | 169,195 |
| **Interest Paid** | | 3,855 | 4,154 | 9,570 | 7,971 |

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

## 1. GENERAL INFORMATION

WestBond Enterprises Corporation and its subsidiary (together, the company) are a paper converter that manufactures disposable products for medical, hygienic and industrial uses. The company's manufacturing facilities are in Canada and its sales are primarily to Canada and the United States of America. The company is incorporated in British Columbia, Canada, and has its principal place of business at 7871 – 82$^{nd}$ Street, Delta, British Columbia.

The interim consolidated financial statements of the company for the three and six month periods ended September 30, 2012 were approved and authorized for issue by resolution of the directors on November 23, 2012.

## 2. BASIS OF PREPARATION AND INTERIM PERIOD REPORTING

The interim consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending March 31, 2013 could result in restatement of these interim consolidated financial statements.

The same accounting policies and methods of computation have been followed in the preparation of these interim consolidated financial statements as in the consolidated financial statements for the year ended March 31, 2012.

The disclosure contained in these interim consolidated financial statements has been condensed and includes only selected explanatory notes and does not duplicate or repeat disclosure reported in the consolidated financial statements for the year ended March 31, 2012 that has not changed materially since their date of issue. Accordingly, these interim consolidated financial statements should only be read in conjunction with the consolidated financial statements of the company for the year ended March 31, 2012.

## 3. RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2012, the company incurred total compensation comprising short-term employee benefits of $161,746 (2011 – $164,409) to the directors and officers of the company and incurred $5,854 (2011 – $6,326) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

## 4. TERM BANK LOANS

During the six months ended September 30, 2012, the term of the bank loan was extended to August 30, 2013.

| | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ |
| **5. COST OF SALES** | | | | |
| Materials | 826,524 | 830,061 | 1,678,263 | 1,614,759 |
| Production labour | 111,140 | 117,971 | 221,605 | 236,464 |
| Factory overhead labour | 67,153 | 61,226 | 135,845 | 125,389 |
| Variable overhead | 41,738 | 35,173 | 81,880 | 68,037 |
| Fixed overhead | 111,812 | 111,082 | 225,106 | 221,329 |
| Depreciation | 72,497 | 59,671 | 143,732 | 116,699 |
| | 1,230,864 | 1,215,184 | 2,486,431 | 2,382,677 |
| **6. SELLING AND DISTRIBUTION EXPENSES** | | | | |
| Shipping | 120,036 | 111,781 | 220,036 | 214,381 |
| Wages, commissions and other employee benefits | 31,224 | 22,987 | 61,051 | 46,265 |
| Other | 9,186 | 3,875 | 15,762 | 10,403 |
| | 160,446 | 138,643 | 296,849 | 271,049 |
| **7. GENERAL AND ADMINISTRATIVE EXPENSES** | | | | |
| Administration and office | 31,493 | 36,330 | 59,378 | 65,140 |
| Corporate promotion | 3,229 | 1,247 | 4,258 | 1,519 |
| Professional fees | 14,603 | 12,584 | 31,632 | 22,829 |
| Salaries and other employee benefits | 87,535 | 95,566 | 179,202 | 188,302 |
| | 136,860 | 145,727 | 274,470 | 277,790 |
| **8. NON-CASH INVESTING ACTIVITIES** | | | | |
| Increase (decrease) in accounts payable related related to purchase of plant and equipment | (2,970) | 2,646 | (2,114) | (13,268) |