



# **WestBond Enterprises Corporation**

## **Quarterly Report September 30, 2014**

### **Management Discussion and Analysis**

Dated November 28, 2014 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 2014

**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 2014 Annual Report. A pdf version of the 2014 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, 2014 and our consolidated financial statements for the year ended March 31, 2014 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 2014 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since July 21, 2014, the date of the Management Discussion and Analysis in the 2014 Annual Report, is not repeated here.

Sales were \$1,762,039 for the three months ended September 30, 2014, which is 7.0% higher than for the three months ended September 30, 2013 and 3.7% lower than for the three months ended June 30, 2014. We incurred a net loss of \$98,082 (\$0.003 per share) for the three months ended September 30, 2014, compared to a profit of \$11,775 (\$0.002 per share) for the three months ended September 30, 2013. The loss was caused mainly by costs of \$149,125 incurred to relocate our factory and offices.

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

#### **WestBond Enterprises Corporation**

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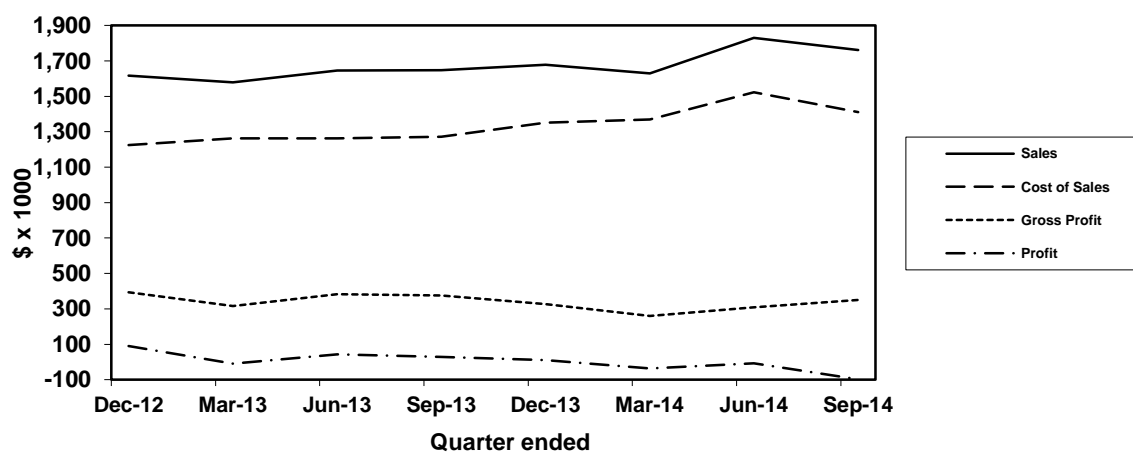
## Summary of Quarterly Results

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<br>2014 | Jun 30<br>2014 | Mar 31<br>2014 | Dec 31<br>2013 | Sep 30<br>2013 | Jun 30<br>2013 | Mar 31<br>2013 | Dec 31<br>2012 |
| Sales                                                | 1,762          | 1,830          | 1,629          | 1,678          | 1,647          | 1,644          | 1,579          | 1,617          |
| Cost of sales                                        | 1,411          | 1,522          | 1,369          | 1,352          | 1,272          | 1,263          | 1,263          | 1,224          |
| Gross profit                                         | 351            | 308            | 260            | 326            | 375            | 381            | 316            | 393            |
| Selling and distribution expenses                    | 163            | 179            | 146            | 157            | 168            | 161            | 148            | 150            |
| General and administrative expenses                  | 160            | 138            | 154            | 149            | 157            | 129            | 170            | 150            |
| Other expenses (income)                              | 180            | 1              | 7              | 7              | 9              | 5              | 10             | (28)           |
| (Loss) profit before tax                             | (132)          | (10)           | (47)           | 13             | 41             | 86             | (12)           | 121            |
| Income tax (recovery) expense                        | (34)           | (2)            | (11)           | 4              | 12             | 43             | (2)            | 30             |
| (Loss) profit                                        | (98)           | (8)            | (36)           | 9              | 29             | 43             | (10)           | 91             |
| (Loss) earnings per share, basic and diluted - Cdn\$ | (0.030)        | (0.000)        | (0.001)        | 0.000          | 0.002          | 0.004          | (0.001)        | 0.008          |
| <b>Sales - % change over previous quarter</b>        | <b>-3.7</b>    | <b>12.3</b>    | <b>-2.8</b>    | <b>1.9</b>     | <b>0.1</b>     | <b>4.1</b>     | <b>-2.3</b>    | <b>3.5</b>     |

### Costs, expenses and profit - % of Sales

|                                     |      |      |      |      |      |      |      |      |
|-------------------------------------|------|------|------|------|------|------|------|------|
| Cost of sales                       | 80.1 | 83.2 | 84.0 | 80.6 | 77.2 | 76.8 | 80.0 | 75.7 |
| Selling and distribution expenses   | 9.3  | 9.8  | 8.9  | 9.4  | 10.2 | 9.8  | 9.3  | 9.3  |
| General and administrative expenses | 9.1  | 7.5  | 9.4  | 8.9  | 9.5  | 7.9  | 10.7 | 9.3  |
| Other expenses (income)             | 9.0  | 0.0  | 0.5  | 0.4  | 0.6  | 0.3  | 0.6  | -1.8 |
| Income tax expense                  | -1.9 | -0.1 | -0.7 | 0.2  | 0.7  | 2.6  | -0.1 | 1.9  |
| Profit                              | -5.6 | -0.4 | -2.1 | 0.5  | 1.8  | 2.6  | -0.5 | 5.6  |



## Sales

Sales for the three months ended September 30, 2014 were 7.0% higher than for the same period last year and 3.7% lower than the previous quarter, ended June 30, 2014. The change is due to higher sales volumes in the personal hygiene product lines and declining sales in the clinical and long-term care product lines. We implemented a moderate price increase this quarter to recover some of our margin.

| Sales                       | Three months ended |                  | Change over last year | Six months ended |                  | Change over last year |
|-----------------------------|--------------------|------------------|-----------------------|------------------|------------------|-----------------------|
|                             | September 30       |                  |                       | September 30     |                  |                       |
| Product Line                | 2014               | 2013             |                       | 2014             | 2013             |                       |
|                             | \$                 | \$               |                       | \$               | \$               |                       |
| Personal hygiene            | 913,732            | 781,856          | 16.9%                 | 1,806,109        | 1,434,229        | 25.9%                 |
| Clinical and long-term care | 814,678            | 815,642          | -0.1%                 | 1,707,395        | 1,706,361        | 0.1%                  |
| Other                       | 33,629             | 49,132           | -31.6%                | 78,987           | 150,580          | -47.5%                |
|                             | <u>1,762,039</u>   | <u>1,646,630</u> | <u>7.0%</u>           | <u>3,592,491</u> | <u>3,291,170</u> | <u>9.2%</u>           |

## Cost of Sales

Materials costs, at 57.6% of sales, were higher in the 2014 periods than in the 2013 periods due to increased prices for raw materials and lower paper yields (the amount of product a certain weight of paper will produce). Our normal operating range for materials has been 51% to 55% and the average for the year ended March 31, 2014 was 54.4%. This raw materials cost increase reduced our profit margin. We have taken steps to source less expensive materials and materials that are less affected by US dollar exchange rates. Also, we will be able to buy paper sizes that are more suited to our equipment which will reduce future waste factors.

Fluctuations in labour, variable overhead and depreciation are within our normal operating range. Fixed overhead is lower because we terminated the lease on our warehouse at the end of June 2014. The factory and warehouse rent at our new facilities, which are 20% larger than both of our previous facilities combined, will be \$35,300 per month commencing October 2014, compared to \$34,169 at our previous facilities.

| Cost of Sales           | Three months ended September 30 |              | Six months ended September 30 |              |
|-------------------------|---------------------------------|--------------|-------------------------------|--------------|
|                         | 2014                            | 2013         | 2014                          | 2013         |
|                         | % of sales                      | % of sales   | % of sales                    | % of sales   |
| Materials               | 57.6%                           | 52.6%        | 58.3%                         | 52.0%        |
| Production labour       | 8.0%                            | 7.8%         | 7.7%                          | 7.6%         |
| Factory overhead labour | 4.0%                            | 3.6%         | 3.6%                          | 3.7%         |
| Variable overhead       | 2.7%                            | 1.5%         | 2.7%                          | 1.9%         |
| Fixed overhead          | 3.6%                            | 6.8%         | 4.9%                          | 7.0%         |
| Depreciation            | 4.2%                            | 4.9%         | 4.5%                          | 4.8%         |
| Gross Margin            | <u>19.9%</u>                    | <u>22.8%</u> | <u>18.3%</u>                  | <u>23.0%</u> |

## Selling Expenses

Selling expenses during the six months ended September 30, 2014 were 9.5% of sales, compared to 10.0% for the six months ended September 30, 2013. Shipping costs were higher because the majority of sales increases occurred with out-of-town distributors while commissions were lower.

## General and Administrative Expenses

General and administrative expenses were higher in 2014 than in 2013. Stationery and other supplies for the new offices and computer maintenance caused office expenses to increase. Additional office staff and higher rates of pay caused salaries and employee benefits to increase. These increases were offset by lower professional fees and corporate promotion expenses.

During the six months ended September 30, 2014, the company incurred total short-term employee benefits of \$165,352 (2013 – \$159,580) to its key management personnel, comprising the directors and officers of the company, and incurred \$5,777 (2013 – \$53,147) 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. \$28,385 of the legal fees for 2013 are reflected in share issue costs.

### ***Other Income and Expenses***

Relocation expenses incurred to move our offices and equipment to our new premises totalled \$149,125 for the three months ended September 30, 2014. We expect to incur an additional \$50,000 in the following three months. Trucking costs and moving equipment rentals of \$50,753 and electrician and mechanic labour of \$98,372 to disconnect, disassemble, reassemble and reconnect the equipment comprise the expense.

We chose to dispose of some equipment rather than move it to our new premises and realized a loss on disposal of \$11,253.

The exchange rate between the US and Canadian dollars continues to fluctuate, causing gains in some periods that are offset with losses in other periods. Interest expense is lower due to decreased debt levels.

### **Liquidity, Financial Position and Capital Resources**

Our operating cash flows were \$31,523 during the six months ended September 30, 2014, an average of \$5,254 per month, compared to an average of \$33,833 per month during the year ended March 31, 2014, before accounting for fluctuations in non-cash working capital. The decrease in operating cash flow was caused by our relocation expenses. We had working capital of \$695,381 at September 30, 2014, compared to \$2,923,082 at March 31, 2014. The reduction is due to the investment in new machinery, which we plan to put into operation during the next year.

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 \$125,000 was used at September 30, 2014. 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. Loans outstanding under the facility bear interest at bank prime plus 0.75%. 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 an \$11,096 non-revolving bank loan that is repayable in monthly instalments of principal of \$5,556 until November 30, 2014 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 also have a \$5,000,000 term loan credit facility for the purchase of certain production equipment. Loans under the facility are to be fully drawn down by September 30, 2015. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing 12 months after final draw with a final payment of the balance of principal 24 months after final draw. Interest is payable monthly at bank prime plus 1.5% per annum. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets will be pledged as collateral.

We have committed to the purchase of equipment in the amount of €3,895,379 (European euros), equivalent to Cdn\$5,513,130 at the September 30, 2014 exchange rate of €1.00=Cdn\$1.4153. During the six months ended September 30, 2014 we made payments of €1,129,884 against these commitments and issued irrevocable bank letters of credit for €2,538,314 of the balance and entered into forward exchange contracts to purchase €2,317,431 at a weighted average exchange rate of €1.00=Cdn\$1.4804. The bank letters of credit and forward exchange contracts are supported by the \$5,000,000 term bank loan facility.

We intend to spend around \$1,000,000 in addition to the commitments we have already made for production equipment and leasehold improvements during the next year.

### **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 have applied hedge accounting for the first time this quarter. We have accounted for our forward exchange contracts as effective fair value hedges of portions of our euro equipment purchase commitments. Any unrealized gain or loss on the hedges is recognized as an asset or liability at the period end date and a corresponding decrease or increase is recognized in plant and equipment cost. At September 30, 2014 there was an unrealized loss of \$150,855 on the forward exchange contracts.

A gain or loss on any portion of the forward exchange contracts that ceases to be an effective hedge, which would be the case if the forward contract amount exceeded the equipment purchase commitment, would be recognized in profit or loss.

### **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.

|                                                          | <u>November 28, 2014</u> |
|----------------------------------------------------------|--------------------------|
| Authorized common shares without par value               | Unlimited                |
| Issued common shares                                     | 33,665,800               |
| Shares issuable on exercise of outstanding stock options | Nil                      |
| Shares available for future stock option grants          | 2,000,000                |

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 2016, subject to further renewal or amendment. 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](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://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, 2014 and 2013 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)

|                                                   |       | September 30<br>2014 | March 31<br>2014 |
|---------------------------------------------------|-------|----------------------|------------------|
|                                                   | Notes | \$                   | \$               |
| <b>ASSETS</b>                                     |       |                      |                  |
| <b>Non-Current Assets</b>                         |       |                      |                  |
| Plant and equipment                               |       | 4,664,414            | 2,495,144        |
| Lease deposits                                    |       | 36,023               | 58,456           |
| Deferred tax assets                               |       | 14,510               | 16,859           |
|                                                   |       | 4,714,947            | 2,570,459        |
| <b>Current Assets</b>                             |       |                      |                  |
| Inventory                                         |       | 814,801              | 1,189,989        |
| Trade and other receivables                       |       | 931,060              | 740,645          |
| Prepaid expenses                                  |       | 36,801               | 27,233           |
| Cash and cash equivalents                         |       | 76,436               | 1,638,407        |
|                                                   |       | 1,859,098            | 3,596,274        |
| <b>Total Assets</b>                               |       | 6,574,045            | 6,166,733        |
| <b>EQUITY AND LIABILITIES</b>                     |       |                      |                  |
| <b>Equity</b>                                     |       |                      |                  |
| Common shares issued and outstanding              |       | 3,883,225            | 3,839,080        |
| Warrants                                          |       | -                    | 11,745           |
| Contributed surplus                               |       | 286,874              | 286,874          |
| Retained earnings                                 |       | 716,090              | 822,120          |
| <b>Equity attributable to common shareholders</b> |       | 4,886,189            | 4,959,819        |
| <b>Liabilities</b>                                |       |                      |                  |
| <b>Non-Current Liabilities</b>                    |       |                      |                  |
| Deferred tax liability                            |       | 524,139              | 533,722          |
| <b>Current Liabilities</b>                        |       |                      |                  |
| Revolving bank loans                              |       | 125,000              | -                |
| Term bank loans                                   |       | 11,096               | 44,432           |
| Foreign exchange hedge liability                  | 4     | 150,855              | -                |
| Trade and other payables                          |       | 876,766              | 628,760          |
|                                                   |       | 1,163,717            | 673,192          |
| <b>Total Liabilities</b>                          |       | 1,687,856            | 1,206,914        |
| <b>Total Equity and Liabilities</b>               |       | 6,574,045            | 6,166,733        |
| <b>Commitments</b>                                | 4     |                      |                  |

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

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

|                                                          | Notes | Three months ended<br>September 30 |            | Six months ended<br>September 30 |            |
|----------------------------------------------------------|-------|------------------------------------|------------|----------------------------------|------------|
|                                                          |       | 2014                               | 2013       | 2014                             | 2013       |
|                                                          |       | \$                                 | \$         | \$                               | \$         |
| <b>Sales</b>                                             |       | 1,762,039                          | 1,646,630  | 3,592,491                        | 3,291,170  |
| <b>Cost of sales</b>                                     | 5     | 1,410,993                          | 1,271,803  | 2,933,315                        | 2,535,110  |
| <b>Gross Profit</b>                                      |       | 351,046                            | 374,827    | 659,176                          | 756,060    |
| <b>Selling and distribution expenses</b>                 | 6     | 163,165                            | 168,448    | 342,366                          | 329,560    |
| <b>General and administrative expenses</b>               | 7     | 160,175                            | 156,742    | 298,338                          | 285,961    |
| <b>Operating Profit</b>                                  |       | 27,706                             | 49,637     | 18,472                           | 140,539    |
| <b>Foreign exchange (gains) losses</b>                   |       | (1,628)                            | 6,644      | (1,299)                          | 8,419      |
| <b>Loss on disposal of equipment</b>                     |       | 11,253                             | -          | 11,253                           | -          |
| <b>Relocation expenses</b>                               |       | 149,125                            | -          | 149,125                          | -          |
| <b>Interest expense</b>                                  |       | 645                                | 2,173      | 1,030                            | 4,903      |
| <b>(Loss) Profit Before Tax</b>                          |       | (131,689)                          | 40,820     | (141,637)                        | 127,217    |
| <b>Income tax (recovery) expense</b>                     |       | (33,627)                           | 11,775     | (35,607)                         | 55,232     |
| <b>(Net Loss) Profit and Comprehensive (Loss) Income</b> |       | (98,062)                           | 29,045     | (106,030)                        | 71,985     |
| <b>Weighted average shares outstanding</b>               |       | 33,313,626                         | 13,004,017 | 33,287,357                       | 12,043,403 |
| <b>Earnings per share, basic and fully diluted</b>       |       | (0.003)                            | 0.002      | (0.003)                          | 0.006      |

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)

|                                     | <b>Common<br/>Shares</b> | <b>Warrants</b> | <b>Contributed<br/>Surplus</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|-------------------------------------|--------------------------|-----------------|--------------------------------|------------------------------|--------------|
|                                     | \$                       | \$              | \$                             | \$                           | \$           |
| <b>As at March 31, 2013</b>         | 2,099,703                | -               | 286,874                        | 775,465                      | 3,162,042    |
| <b>Profit for the period</b>        | -                        | -               | -                              | 71,985                       | 71,985       |
| <b>As at September 30,<br/>2013</b> | 2,099,703                | -               | 286,874                        | 847,450                      | 3,234,027    |
| <b>As at March 31, 2014</b>         | 3,839,080                | 11,745          | 286,874                        | 822,120                      | 4,959,819    |
| <b>Exercise of warrants</b>         | 44,145                   | (11,745)        | -                              | -                            | 32,400       |
| <b>Loss for the period</b>          | -                        | -               | -                              | (106,030)                    | (106,030)    |
| <b>As at September 30,<br/>2014</b> | 3,883,225                | -               | 286,874                        | 716,090                      | 4,886,189    |

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

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

|                                                                                 | Notes | Three months ended<br>September 30 |           | Six months ended<br>September 30 |           |
|---------------------------------------------------------------------------------|-------|------------------------------------|-----------|----------------------------------|-----------|
|                                                                                 |       | 2014                               | 2013      | 2014                             | 2013      |
|                                                                                 |       | \$                                 | \$        | \$                               | \$        |
| <b>Operating Activities</b>                                                     |       |                                    |           |                                  |           |
| (Net loss) Profit                                                               |       | (98,062)                           | 29,045    | (106,030)                        | 71,985    |
| Adjustments to reconcile profit to cash flows from operating activities         |       |                                    |           |                                  | -         |
| - depreciation                                                                  |       | 76,711                             | 82,288    | 167,169                          | 162,845   |
| - loss on disposal of equipment                                                 |       | 11,253                             | -         | 11,253                           | -         |
| - lease deposits applied                                                        |       | 12,920                             | -         | 22,433                           | -         |
| - interest expense                                                              |       | 645                                | 2,173     | 1,030                            | 4,903     |
| - interest paid                                                                 |       | (567)                              | (2,311)   | (974)                            | (5,212)   |
| - income tax (recovery) expense                                                 |       | (33,627)                           | 11,775    | (35,607)                         | 55,232    |
| - income tax paid                                                               |       | (6,672)                            | (2,283)   | (27,751)                         | (15,737)  |
| Cash flows from operating activities before changes in non-cash working capital |       | (37,399)                           | 120,687   | 31,523                           | 274,016   |
| (Increase) decrease in                                                          |       |                                    |           |                                  |           |
| - inventory                                                                     |       | 196,516                            | 815       | 375,188                          | 249,076   |
| - trade and other receivables                                                   |       | (146,880)                          | 69,844    | (190,415)                        | (53,804)  |
| - prepaid expenses                                                              |       | (2,164)                            | (89,219)  | (9,568)                          | (76,678)  |
| - deferred tax assets                                                           |       | 1,141                              | -         | 2,349                            | -         |
| (Decrease) increase in                                                          |       |                                    |           |                                  |           |
| - deferred tax liability                                                        |       | 58                                 | 3,809     | (9,583)                          | 23,248    |
| - trade and other payables                                                      |       | 17,689                             | 108,001   | 127,946                          | (71,506)  |
| Net Cash Flow from Operating Activities                                         |       | 28,961                             | 213,937   | 327,440                          | 344,352   |
| <b>Investing Activities</b>                                                     |       |                                    |           |                                  |           |
| Purchase of plant and equipment                                                 | 8     | (308,520)                          | (48,452)  | (2,013,475)                      | (174,910) |
| <b>Financing Activities</b>                                                     |       |                                    |           |                                  |           |
| Issuance of common shares for cash                                              |       | -                                  | 1,500,000 | -                                | 1,500,000 |
| Issuance of common shares for cash on exercise of warrants                      |       | 32,400                             | -         | 32,400                           |           |
| Share issue costs                                                               |       | -                                  | (69,936)  | -                                | (69,936)  |
| Repayment of term loans                                                         |       | (16,668)                           | (22,224)  | (33,336)                         | (38,892)  |
| Increase (decrease) in revolving bank loans                                     |       | 125,000                            | (207,016) | 125,000                          | (237,000) |
| Net Cash Flow from Financing Activities                                         |       | 140,732                            | 1,200,824 | 124,064                          | 1,154,172 |
| <b>Net Decrease in Cash and Cash Equivalents</b>                                |       | (138,827)                          | 1,366,309 | (1,561,971)                      | 1,323,614 |
| <b>Cash and Cash Equivalents at the Beginning of the Period</b>                 |       | 215,263                            | 33,462    | 1,638,407                        | 76,157    |
| <b>Cash and Cash Equivalents at the End of the Period</b>                       |       | 76,436                             | 1,399,771 | 76,436                           | 1,399,771 |

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

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Interim Consolidated Financial Statements

September 30, 2014 and 2013

(Canadian Dollars)

(unaudited)

### 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 101 – 7403 Progress Way, Delta, British Columbia.

The interim consolidated financial statements of the company for the three and six month periods ended September 30, 2014 were approved and authorized for issue by resolution of the directors on November 28, 2014.

### 2. BASIS OF PREPARATION AND INTERIM PERIOD REPORTING

The interim consolidated financial statements of the company have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting*, ("IAS 34"). The policies applied in these interim consolidated financial statements are based on International Financial Reporting Standards ("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, 2015 could result in restatement of these interim consolidated financial statements.

The same accounting policies and methods of computation were followed in the preparation of these interim consolidated financial statements as in the consolidated financial statements for the year ended March 31, 2014.

The disclosure contained in these interim consolidated financial statements is 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, 2014 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, 2014.

### 3. RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2014, the company incurred total compensation comprising short-term employee benefits of \$165,352 (2013 – \$159,580) to the directors and officers of the company and incurred \$5,777 (2013 – \$53,147) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. \$28,385 of the legal fees for 2013 are reflected in share issue costs.

### 4. COMMITMENTS

We have committed to the purchase of equipment in the amount of €3,895,379 (European euros), equivalent to Cdn\$5,513,130 at the September 30, 2014 exchange rate of €1.00=Cdn\$1.4153. During the six months ended September 30, 2014 we made payments of €1,129,884 against these commitments and issued irrevocable bank letters of credit for €2,538,314 of the balance and entered into forward exchange contracts to purchase €2,317,431 at a weighted average exchange rate of €1.00=Cdn\$1.4804. The bank letters of credit and forward exchange contracts are supported by a \$5,000,000 term bank loan facility.

The forward exchange contracts are accounted for as effective hedges of portions of the euro equipment purchase commitments. Any unrealized gain or loss on the hedges is recognized as an asset or liability at the period end date and a corresponding decrease or increase is recognized in plant and equipment cost. At September 30, 2014 there was an unrealized loss of \$150,855 on the forward exchange contracts.

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2014 and 2013**  
**Canadian Dollars**  
**(unaudited)**

|                                                                                               | Three months ended<br>September 30 |                  | Six months ended<br>September 30 |                  |
|-----------------------------------------------------------------------------------------------|------------------------------------|------------------|----------------------------------|------------------|
|                                                                                               | 2014                               | 2013             | 2014                             | 2013             |
|                                                                                               | \$                                 | \$               | \$                               | \$               |
| <b>5. COST OF SALES</b>                                                                       |                                    |                  |                                  |                  |
| Materials                                                                                     | 1,014,853                          | 866,467          | 2,095,025                        | 1,711,466        |
| Production labour                                                                             | 141,666                            | 128,976          | 275,669                          | 250,296          |
| Factory overhead labour                                                                       | 70,463                             | 59,144           | 131,026                          | 123,753          |
| Variable overhead                                                                             | 47,935                             | 25,627           | 95,215                           | 61,271           |
| Fixed overhead                                                                                | 62,376                             | 111,247          | 174,467                          | 228,592          |
| Depreciation                                                                                  | 73,700                             | 80,342           | 161,913                          | 159,732          |
|                                                                                               | <u>1,410,993</u>                   | <u>1,271,803</u> | <u>2,933,315</u>                 | <u>2,535,110</u> |
| <b>6. SELLING AND DISTRIBUTION EXPENSES</b>                                                   |                                    |                  |                                  |                  |
| Shipping                                                                                      | 137,573                            | 123,974          | 284,012                          | 244,837          |
| Wages, commissions and other employee benefits                                                | 21,835                             | 40,768           | 51,749                           | 77,738           |
| Other                                                                                         | 3,757                              | 3,706            | 6,605                            | 6,985            |
|                                                                                               | <u>163,165</u>                     | <u>168,448</u>   | <u>342,366</u>                   | <u>329,560</u>   |
| <b>7. GENERAL AND ADMINISTRATIVE EXPENSES</b>                                                 |                                    |                  |                                  |                  |
| Administration and office                                                                     | 44,211                             | 33,590           | 78,775                           | 64,193           |
| Corporate promotion                                                                           | 2,359                              | 5,955            | 4,146                            | 6,416            |
| Professional fees                                                                             | 14,175                             | 32,980           | 23,178                           | 45,650           |
| Salaries and other employee benefits                                                          | 99,430                             | 84,217           | 192,239                          | 169,702          |
|                                                                                               | <u>160,175</u>                     | <u>156,742</u>   | <u>298,338</u>                   | <u>285,961</u>   |
| <b>8. NON-CASH INVESTING ACTIVITIES</b>                                                       |                                    |                  |                                  |                  |
| Unrealized loss on foreign exchange hedge<br>included in plant and equipment                  | 150,855                            | -                | 150,855                          | -                |
| Increase (decrease) in accounts payable related<br>related to purchase of plant and equipment | 161,925                            | 13,440           | 183,362                          | (42,358)         |
|                                                                                               | <u>161,925</u>                     | <u>13,440</u>    | <u>183,362</u>                   | <u>(42,358)</u>  |