# *WestBond Enterprises Corporation*

## *Quarterly Report*
## *June 30, 2016*

# Management Discussion and Analysis

**Dated August 15, 2016 to Accompany the Interim Consolidated Financial Statements for the Three Month Period Ended June 30, 2016**

**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, foreign 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 2016 Annual Report. A pdf version of the 2016 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 month period ended June 30, 2016 and our consolidated financial statements for the year ended March 31, 2016 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 2016 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 20, 2016, the date of the Management Discussion and Analysis in the 2016 Annual Report, is not repeated here.

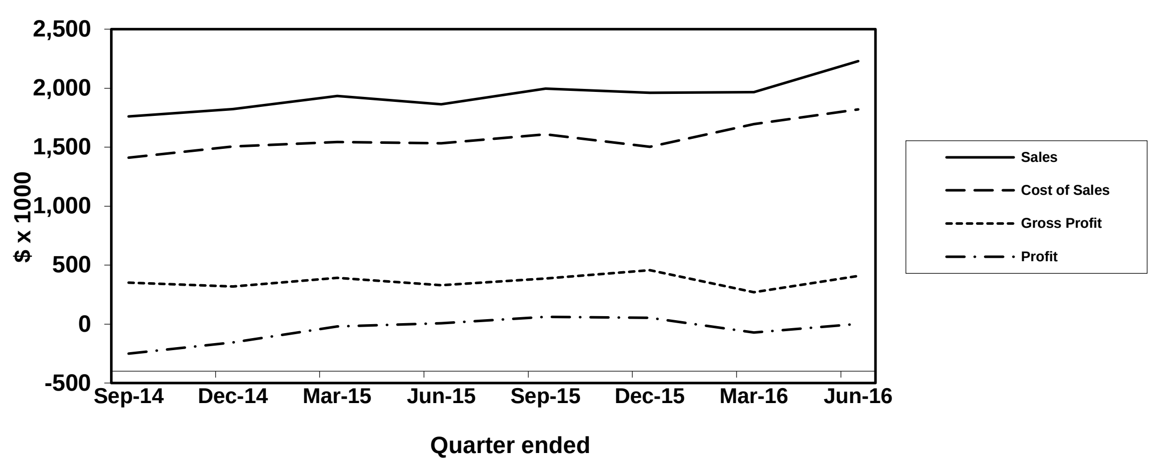
Sales were $2,229,931 for the three months ended June 30, 2016, which is 19.6% higher than for the three months ended June 30, 2015 and 13.4% higher than for the three months ended March 31, 2016. We realized a profit of $2,938 ($0.000 per share) for the three months ended June 30, 2016, compared to a profit of $7,738 ($0.000 per share) for the three months ended June 30, 2015.

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

## 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 30 2016 | Mar 31 2016 | Dec 31 2015 | Sep 30 2015 | Jun 30 2015 | Mar 31 2015 | Dec 31 2014 | Sep 30 2014 |
| Sales | 2,230 | 1,966 | 1,961 | 1,996 | 1,865 | 1,934 | 1,823 | 1,762 |
| Cost of sales | 1,821 | 1,696 | 1,504 | 1,610 | 1,534 | 1,543 | 1,505 | 1,411 |
| Gross profit | 409 | 270 | 457 | 386 | 331 | 391 | 318 | 351 |
| Selling and distribution expenses | 193 | 142 | 162 | 155 | 147 | 153 | 169 | 163 |
| General and administrative expenses | 166 | 163 | 153 | 166 | 153 | 156 | 245 | 160 |
| Operating profit (loss) | 50 | (35) | 142 | 65 | 31 | 82 | (96) | (28) |
| Other expenses (income) | 47 | 57 | 66 | (1) | 16 | 89 | 56 | 311 |
| Profit (loss) before tax | 3 | (92) | 76 | 66 | 15 | (7) | (152) | (283) |
| Income tax expense (recovery) | - | (21) | 22 | 5 | 7 | 12 | 3 | (34) |
| Profit (loss) | 3 | (71) | 54 | 61 | 8 | (19) | (155) | (249) |
| Earnings (loss) per share, basic and diluted - Cdn$ | 0.000 | (0.002) | 0.002 | 0.002 | 0.000 | (0.001) | (0.005) | (0.007) |
| **Sales - % change over previous quarter** | 13.4 | 0.3 | -1.8 | 7.0 | -3.6 | 6.1 | 3.5 | -3.7 |
| **Costs, expenses and net income - % of Sales** | | | | | | | | |
| Cost of sales | 81.7 | 86.3 | 76.7 | 80.7 | 82.2 | 79.8 | 82.6 | 80.1 |
| Selling and distribution expenses | 8.7 | 7.3 | 8.2 | 7.8 | 7.9 | 7.9 | 9.3 | 9.3 |
| General and administrative expenses | 7.4 | 8.3 | 7.8 | 8.3 | 8.2 | 8.1 | 13.4 | 9.1 |
| Other expenses (income) | 2.1 | 2.7 | 3.4 | -0.1 | 0.9 | 4.6 | 3.0 | 17.6 |
| Income tax expense (recovery) | 0.0 | -1.1 | 1.1 | 0.3 | 0.4 | 0.6 | 0.2 | -1.9 |
| Profit (loss) | 0.1 | -3.5 | 2.8 | 3.0 | 0.4 | -1.0 | -8.5 | -14.2 |



### *Sales*

Sales for the three months ended June 30, 2016 were 19.6% higher than for the same period last year and 13.4% higher than the previous quarter, ended March 31, 2016. The increase is due to higher sales volumes and the higher Canadian dollar value of sales denominated in US dollar prices.

| ***Sales*** | Three months ended June 30 | | Change over last year |
|---|---|---|---|
| Product Line | 2016 $ | 2015 $ | |
| Personal hygiene | 1,005,532 | 895,899 | 12.2% |
| Clinical | 461,868 | 371,622 | 24.3% |
| Long-term care | 596,430 | 576,668 | 3.4% |
| Air laid paper | 98,397 | - | n/a |
| Other | 67,704 | 20,887 | 224.1% |
| | 2,229,931 | 1,865,076 | 19.6% |

### *Cost of Sales*

Our cost of sales structure is changing as a result of bringing our air laid paper machine into production. Materials costs are lower and labour, overhead and depreciation are higher. The net effect is a higher gross margin. We expect these changes to continue to improve the gross margin as we bring the paper machine into full production.

| ***Cost of Sales*** | Three months ended June 30 | |
|---|---|---|
| | 2016 % of sales | 2015 % of sales |
| Materials | 50.3% | 56.2% |
| Production labour | 9.3% | 8.8% |
| Factory overhead labour | 4.9% | 3.8% |
| Variable overhead | 3.8% | 2.4% |
| Fixed overhead | 5.5% | 6.5% |
| Depreciation | 7.9% | 4.5% |
| Gross Margin | 18.3% | 17.8% |

### *Selling Expenses*

Selling expenses during the three months ended June 30, 2016 were 8.7% of sales, compared to 7.9% for the three months ended June 30, 2015. The increase, mainly in shipping costs, is due to higher sales to central Canada and the United States.

### *General and Administrative Expenses*

General and administrative expenses were higher in 2016 than in 2015. Increased bank charges and credit card fees caused the increase in administration and office expense. Higher rates of pay caused salaries and employee benefits to increase.

During the three months ended June 30, 2016, the company incurred total short-term employee benefits of $94,468 (2015 – $90,843) to its key management personnel, comprising the directors and officers of the company, and incurred $2,973 (2015 – $nil) 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.

### *Other Income and Expenses*

Fluctuations in the US dollar exchange rate caused a $7,075 gain in the three months ended June 30, 2016, compared with a $468 loss in the same period last year. Interest expense is higher because the interest on the term bank loan was capitalized until August 2015.

## Liquidity, Financial Position and Capital Resources

Our operating cash flows were $244,705 during the three months ended June 30, 2016, an average of $81,568 per month, compared to an average of $62,744 per month during the year ended March 31, 2016, before accounting for fluctuations in non-cash working capital. We had working capital of $645,437 at June 30, 2016, compared to $705,206 at March 31, 2016. The decrease is due to a larger current portion of the term loan, which was offset with improved operating cash flows.

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 $1,500,000, of which $90,673 was used at June 30, 2016. 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 $1,500,000 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 $300,000. 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 $5,000,000 term loan credit facility for the purchase of our binder bonded air laid paper making machine, which was fully drawn at June 30, 2016. Repayment of the loan is in 11 monthly instalments of $59,524 commencing September 22, 2016 with a final payment of the balance of principal on August 22, 2017. We intend to get annual one-year extensions of the final payment date at least one year before the final payment date so that no more than $714,288 (twelve monthly payments of $59,524) of the term loan is current at any time. 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 are pledged as collateral.

We have received a deferral until December 31, 2016 of our covenant with the bank to maintain our ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:1 or higher.

We intend to spend around $300,000 for production equipment during the next year, which we will finance from operating cash flows.

## New Accounting Policies

The International Accounting Standards Board adopted *IAS 16, Leases,* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Effective for our financial year ending March 31, 2020, we will be required to reflect an asset and related liability for the lease of our premises. We have not yet quantified the impact this will have on our financial position.

The International Accounting Standards Board adopted *IFRS 15, Revenue from Contracts with Customers,* in May 2014 effective for financial years beginning on or after January 1, 2018, which establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. The adoption of this standard will not have any significant impact on our financial statements, other than the disclosure of additional information, which is already provided in this Management Discussion and Analysis.

## Share Capital

The Company has only one class of share capital, common shares without par value. The Company also has a stock option plan.

| | August 15, 2016 |
|---|---|
| Authorized common shares without par value | Unlimited |
| Issued common shares | 33,665,800 |
| Shares issuable on exercise of outstanding stock options | 2,000,000 |
| Shares available for future stock option grants | 1,366,580 |

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 Company had a shareholder rights plan (the "Plan") that was meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan remained in effect until the Company's annual general meeting on August, 15 2016. We did not seek renewal of the Plan because recent changes to securities regulation have improved protection from unfair, abusive or coercive takeover strategies.

## 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 month periods ended June 30, 2016 and 2015 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 | June 30 2016 $ | March 31 2016 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | | 9,102,360 | 9,210,007 |
| Lease deposits | | 18,012 | 18,012 |
| Deferred tax asset | | 1,901 | 8,518 |
| | | 9,122,273 | 9,236,537 |
| **Current Assets** | | | |
| Inventory | | 972,470 | 1,150,407 |
| Trade and other receivables | | 969,799 | 864,993 |
| Income tax recoverable | | 13,456 | 13,456 |
| Prepaid expenses | | 19,685 | 38,354 |
| Cash and cash equivalents | | 27,589 | 117,279 |
| | | 2,002,999 | 2,184,489 |
| **Total Assets** | | 11,125,272 | 11,421,026 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Common shares issued and outstanding | 3 | 3,883,225 | 3,883,225 |
| Stock options | | 96,200 | 96,200 |
| Contributed surplus | | 286,874 | 286,874 |
| Retained earnings | | 446,713 | 443,775 |
| **Equity attributable to common shareholders** | | 4,713,012 | 4,710,074 |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Term bank loans | 4 | 4,404,760 | 4,583,332 |
| Deferred operating lease liability | | 108,494 | 100,608 |
| Deferred tax liability | | 541,444 | 547,729 |
| | | 5,054,698 | 5,231,669 |
| **Current Liabilities** | | | |
| Revolving bank loans | 4 | 90,673 | 101,095 |
| Term bank loans | 4 | 595,240 | 416,668 |
| Trade and other payables | | 671,649 | 961,520 |
| | | 1,357,562 | 1,479,283 |
| **Total Liabilities** | | 6,412,260 | 6,710,952 |
| **Total Equity and Liabilities** | | 11,125,272 | 11,421,026 |

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 June 30 | |
|---|---|---|---|
| | | 2016 | 2015 |
| | | $ | $ |
| **Sales** | | 2,229,931 | 1,865,076 |
| **Cost of sales** | 6 | 1,820,963 | 1,533,805 |
| **Gross Profit** | | 408,968 | 331,271 |
| **Selling and distribution expenses** | 7 | 192,857 | 147,652 |
| **General and administrative expenses** | 8 | 165,687 | 152,752 |
| **Operating Profit** | | 50,424 | 30,867 |
| **Foreign exchange (gain) loss** | | (7,075) | 468 |
| **Loss on forward currency exchange contracts** | | - | 10,350 |
| **Interest expense** | | 54,229 | 5,195 |
| **Profit Before Tax** | | 3,270 | 14,854 |
| **Income tax expense** | | 332 | 7,116 |
| **Profit and Comprehensive Income** | | 2,938 | 7,738 |
| **Weighted average shares outstanding** | | 33,665,800 | 33,665,800 |
| **Earnings per share, basic and fully diluted** | | 0.000 | 0.000 |

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

| | Common Shares | Warrants | Stock Options | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance as at March 31, 2015** | 3,883,225 | - | 96,200 | 286,874 | 390,897 | 4,657,196 |
| **Profit for the period** | - | - | - | - | 7,738 | 7,738 |
| **Balance as at June 30, 2015** | 3,883,225 | - | 96,200 | 286,874 | 398,635 | 4,664,934 |
| **Balance as at March 31, 2016** | 3,883,225 | - | 96,200 | 286,874 | 443,775 | 4,710,074 |
| **Profit for the period** | - | - | - | - | 2,938 | 2,938 |
| **Balance as at June 30, 2016** | 3,883,225 | - | 96,200 | 286,874 | 446,713 | 4,713,012 |

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 June 30 2016 | Three months ended June 30 2015 |
|---|---|---|---|
| | | $ | $ |
| **Operating Activities** | | | |
| Profit | | 2,938 | 7,738 |
| Adjustments to reconcile profit to cash flows from operating activities | | | |
| - depreciation | | 179,320 | 88,406 |
| - deferred operating lease liability | | 7,886 | 14,983 |
| - loss on forward currency exchange contracts | | - | 10,350 |
| - interest expense | | 54,229 | 5,195 |
| - income tax expense | | 332 | 7,116 |
| Cash flows from operating activities before changes in non-cash working capital | | 244,705 | 133,788 |
| (Increase) decrease in | | | |
| - inventory | | 177,937 | (189,158) |
| - trade and other receivables | | (104,806) | (14,159) |
| - prepaid expenses | | 18,669 | 11,926 |
| (Decrease) increase in | | | |
| - trade and other payables | | (309,289) | (189,638) |
| Net Cash Flow from Operating Activities | | 27,216 | (247,241) |
| **Investing Activities** | | | |
| Purchase of plant and equipment | 9 | (56,778) | (3,508,674) |
| Interest capitalized | | - | (26,098) |
| Realized loss on forward currency contracts | | - | (194,513) |
| Net Cash Flow from Investing Activities | | (56,778) | (3,729,285) |
| **Financing Activities** | | | |
| Term loan proceeds | | - | 3,766,122 |
| (Decrease) increase in revolving bank loans | | (10,422) | 136,911 |
| Interest paid | | (49,706) | (4,714) |
| Net Cash Flow from Financing Activities | | (60,128) | 3,898,319 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | (89,690) | (78,207) |
| **Cash and Cash Equivalents at the Beginning of the Period** | | 117,279 | 96,410 |
| **Cash and Cash Equivalents at the End of the Period** | | 27,589 | 18,203 |

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

## 1. GENERAL INFORMATION

WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc., (together, the company) are a paper manufacturer and 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 month period ended June 30, 2016 were approved and authorized for issue by resolution of the directors on August 15, 2016.

## 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, 2017 could result in restatement of these interim consolidated financial statements. The interim consolidated financial statements have been prepared under the historical cost convention.

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, 2016.

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, 2016 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, 2016.

## 3. SHAREHOLDER RIGHTS PLAN

The company's shareholder rights plan was not renewed at its annual general meeting on August 15, 2016 and consequently ceased to be effective.

## 4. BANK LOANS

During the three months ended June 30, 2016, the company's covenant with the bank to maintain its ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:1 or higher was waived until December 31, 2016.

## 5. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2016, the company incurred total compensation comprising short-term employee benefits of $94,468 (2015 – $90,843), to the directors and officers of the company and incurred $2,973 (2015 – $nil) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

| | Three months ended June 30 | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| **6. COST OF SALES** | | |
| Materials | 1,121,960 | 1,047,735 |
| Production labour | 206,916 | 163,370 |
| Factory overhead labour | 109,095 | 70,833 |
| Variable overhead | 84,745 | 44,683 |
| Fixed overhead | 121,981 | 122,488 |
| Depreciation | 176,266 | 84,696 |
| | 1,820,963 | 1,533,805 |
| **7. SELLING AND DISTRIBUTION EXPENSES** | | |
| Shipping | 166,415 | 120,854 |
| Wages, commissions and other employee benefits | 23,713 | 23,534 |
| Other | 2,729 | 3,264 |
| | 192,857 | 147,652 |
| **8. GENERAL AND ADMINISTRATIVE EXPENSES** | | |
| Administration and office | 44,585 | 38,747 |
| Corporate promotion | 1,482 | 1,037 |
| Professional fees | 13,173 | 10,335 |
| Salaries and other employee benefits | 106,447 | 102,633 |
| | 165,687 | 152,752 |
| **9. NON-CASH INVESTING ACTIVITIES** | | |
| Decrease in plant and equipment purchase liabilities supported by term loan commitments | - | 2,889,425 |
| Increase in accounts payable related to purchase of plant and equipment | 14,895 | 158,251 |