



WestBond Enterprises Corporation

Quarterly Report September 30, 2016

Management Discussion and Analysis

Dated November 21, 2016 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 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 manufacturer and 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 and six month periods ended September 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 \$2,329,132 for the three months ended September 30, 2016, which is 16.7% higher than for the three months ended September 30, 2015 and 4.4% higher than for the three months ended June 30, 2016. We realized a profit of \$97,761 (\$0.003 per share) for the three months ended September 30, 2016, compared to a profit of \$60,684 (\$0.002 per share) for the same period last year. The increase is due to higher sales and improved operating margins.

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

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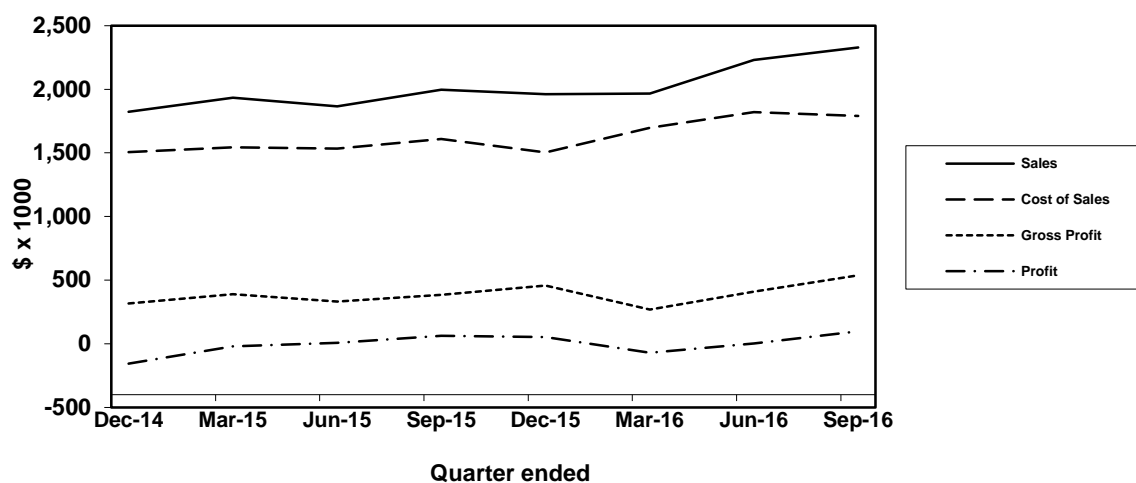
Summary of Quarterly Results

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 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
Sales	2,329	2,230	1,966	1,961	1,996	1,865	1,934	1,823
Cost of sales	1,791	1,821	1,696	1,504	1,610	1,534	1,543	1,505
Gross profit	538	409	270	457	386	331	391	318
Selling and distribution expenses	185	193	142	162	155	147	153	169
General and administrative expenses	162	166	163	153	166	153	156	245
Operating profit (loss)	191	50	(35)	142	65	31	82	(96)
Other expenses (income)	59	47	57	66	(1)	16	89	56
Profit (loss) before tax	132	3	(92)	76	66	15	(7)	(152)
Income tax expense (recovery)	35	-	(21)	22	5	7	12	3
Profit (loss)	97	3	(71)	54	61	8	(19)	(155)
Earnings (loss) per share, basic and diluted - Cdn\$	0.003	0.000	(0.002)	0.002	0.002	0.000	(0.001)	(0.005)
Sales - % change over previous quarter	4.4	13.4	0.3	-1.8	7.0	-3.6	6.1	3.5

Costs, expenses and net income - % of Sales

Cost of sales	76.9	81.7	86.3	76.7	80.7	82.2	79.8	82.6
Selling and distribution expenses	7.9	8.7	7.3	8.2	7.8	7.9	7.9	9.3
General and administrative expenses	7.0	7.4	8.3	7.8	8.3	8.2	8.1	13.4
Other expenses (income)	2.5	2.1	2.7	3.4	-0.1	0.9	4.6	3.0
Income tax expense (recovery)	1.5	0.0	-1.1	1.1	0.3	0.4	0.6	0.2
Profit (loss)	4.2	0.1	-3.5	2.8	3.0	0.4	-1.0	-8.5



Sales

Sales for the three months ended September 30, 2016 were 16.7% higher than for the same period last year and 4.4% higher than the previous quarter, ended June 30, 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 September 30		Change over last year	Six months ended September 30		Change over last year
	2016	2015		2016	2015	
Product Line	\$	\$		\$	\$	
Personal hygiene	1,120,930	927,583	20.8%	2,126,462	1,823,482	16.6%
Clinical	433,834	375,816	15.4%	895,702	747,439	19.8%
Long-term care	572,554	593,974	-3.6%	1,168,984	1,170,641	-0.1%
Air laid paper	146,584	30,361	382.8%	244,982	30,361	706.9%
Other	55,230	68,182	-19.0%	122,933	89,069	38.0%
	2,329,132	1,995,916	16.7%	4,559,063	3,860,992	18.1%

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 September 30		Six months ended September 30	
	2016	2015	2016	2015
	% of sales	% of sales	% of sales	% of sales
Materials	46.7%	55.6%	48.5%	55.9%
Production labour	9.0%	8.3%	9.1%	8.5%
Factory overhead labour	4.6%	3.8%	4.8%	3.8%
Variable overhead	3.5%	2.5%	3.6%	2.4%
Fixed overhead	5.4%	6.0%	5.4%	6.3%
Depreciation	7.7%	4.5%	7.8%	4.5%
Gross Margin	23.1%	19.3%	20.8%	18.6%

Selling Expenses

Selling expenses during the three months ended September 30, 2016 were 7.9% of sales, compared to 7.8% for the three months ended September 30, 2015. The increase, mainly in shipping costs, is due to higher sales to central Canada and the United States.

General and Administrative Expenses

Some 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. Legal fees were lower in 2016 than in 2015.

During the six months ended September 30, 2016, the company incurred total short-term employee benefits of \$180,173 (2015 – \$175,837) to its key management personnel, comprising the directors and officers of the company, and incurred \$7,089 (2015 – \$10,434) 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 \$5,698 loss in the three months ended September 30, 2016, compared with a \$13,073 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 \$634,067 during the three months ended September 30, 2016, an average of \$105,678 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 \$762,723 at September 30, 2016, compared to \$705,206 at March 31, 2016. The increase is due to the improved operating cash flows, offset by a larger current portion of the term loan.

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, none of which was used at September 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 pulp and 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 term loan credit facility which was used for the purchase of our binder bonded air laid paper making machine. Repayment of the loan is in monthly instalments of \$59,524 commencing September 22, 2016 with a final payment of the balance of principal on August 22, 2018 (which was extended from August 22, 2017 during the six months ended September 30, 2016). 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.

	<u>November 21, 2016</u>
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 and six month periods ended September 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	September 30 2016 \$	March 31 2016 \$
ASSETS			
Non-Current Assets			
Plant and equipment		8,947,163	9,210,007
Lease deposits		18,012	18,012
Deferred tax asset		-	8,518
		<u>8,965,175</u>	<u>9,236,537</u>
Current Assets			
Inventory		1,114,077	1,150,407
Trade and other receivables		1,032,383	864,993
Income tax recoverable		-	13,456
Prepaid expenses		62,997	38,354
Cash and cash equivalents		201,296	117,279
		<u>2,410,753</u>	<u>2,184,489</u>
Total Assets		<u><u>11,375,928</u></u>	<u><u>11,421,026</u></u>
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		544,474	443,775
Equity attributable to common shareholders		<u>4,810,773</u>	<u>4,710,074</u>
Liabilities			
Non-Current Liabilities			
Term bank loans	4	4,226,188	4,583,332
Deferred operating lease liability		116,379	100,608
Deferred tax liability		574,558	547,729
		<u>4,917,125</u>	<u>5,231,669</u>
Current Liabilities			
Revolving bank loans	4	-	101,095
Term bank loans	4	714,288	416,668
Trade and other payables		933,742	961,520
		<u>1,648,030</u>	<u>1,479,283</u>
Total Liabilities		<u>6,565,155</u>	<u>6,710,952</u>
Total Equity and Liabilities		<u><u>11,375,928</u></u>	<u><u>11,421,026</u></u>

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		Six months ended	
		September 30		September 30	
		2016	2015	2016	2015
		\$	\$	\$	\$
Sales		2,329,132	1,995,916	4,559,063	3,860,992
Cost of sales	6	1,790,798	1,609,937	3,611,761	3,143,742
Gross Profit		538,334	385,979	947,302	717,250
Selling and distribution expenses	7	184,503	155,151	377,360	302,803
General and administrative expenses	8	162,343	166,207	328,030	318,959
Operating Profit		191,488	64,621	241,912	95,488
Foreign exchange loss (gain)		5,698	13,073	(1,377)	13,541
Gain on forward currency exchange contracts		-	(34,467)	-	(24,117)
Interest expense		53,014	20,134	107,243	25,329
Profit Before Tax		132,776	65,881	136,046	80,735
Income tax expense		35,015	5,197	35,347	12,313
Profit and Comprehensive Income		97,761	60,684	100,699	68,422
Weighted average shares outstanding		33,665,800	33,665,800	33,665,800	33,665,800
Earnings per share, basic and fully diluted		0.003	0.002	0.003	0.002

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 \$	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	-	-	-	68,422	68,422
Balance as at September 30, 2015	<u>3,883,225</u>	<u>96,200</u>	<u>286,874</u>	<u>459,319</u>	<u>4,725,618</u>
Balance as at March 31, 2016	3,883,225	96,200	286,874	443,775	4,710,074
Profit for the period	-	-	-	100,699	100,699
Balance as at September 30, 2016	<u>3,883,225</u>	<u>96,200</u>	<u>286,874</u>	<u>544,474</u>	<u>4,810,773</u>

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		Six months ended	
	September 30		September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating Activities				
Profit	97,761	60,684	100,699	68,422
Adjustments to reconcile profit to cash flows from operating activities				
- depreciation	182,231	91,953	361,551	180,359
- deferred operating lease liability	7,885	14,983	15,771	29,966
- gain on forward currency exchange contracts	-	(34,467)	-	(24,117)
- interest expense	53,014	20,134	107,243	25,329
- income tax expense	35,015	5,197	35,347	12,313
- income tax refunded	13,456	38,723	13,456	38,723
Cash flows from operating activities before changes in non-cash working capital	389,362	197,207	634,067	330,995
(Increase) decrease in				
- inventory	(141,607)	242,581	36,330	53,423
- trade and other receivables	(62,584)	184,046	(167,390)	169,887
- prepaid expenses	(43,312)	(49,019)	(24,643)	(37,093)
(Decrease) increase in				
- trade and other payables	284,038	(149,630)	(25,251)	(339,268)
Net Cash Flow from Operating Activities	425,897	425,185	453,113	177,944
Investing Activities				
Purchase of plant and equipment	9	(48,763)	(913,287)	(105,541)
Interest capitalized		-	(34,050)	-
Realized gain (loss) on forward currency contracts		-	28,374	-
Net Cash Flow from Investing Activities	(48,763)	(918,963)	(105,541)	(4,648,248)
Financing Activities				
Term loan proceeds		-	943,225	-
Repayment of term loans		(59,524)	-	(59,524)
Decrease in revolving bank loans		(90,673)	(447,290)	(101,095)
Interest paid		(53,230)	(16,118)	(102,936)
Net Cash Flow from Financing Activities	(203,427)	479,817	(263,555)	4,378,136
Net Increase (Decrease) in Cash and Cash Equivalents	173,707	(13,961)	84,017	(92,168)
Cash and Cash Equivalents at the Beginning of the Period	27,589	18,203	117,279	96,410
Cash and Cash Equivalents at the End of the Period	201,296	4,242	201,296	4,242

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, 2016 and 2015

(Canadian Dollars)

(unaudited)

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 and six month periods ended September 30, 2016 were approved and authorized for issue by resolution of the directors on November 21, 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 six months ended September 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 and the final due date of the term bank loan was extended to August 22, 2018, with monthly payments of \$59,524 to continue until then.

5. RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2016, the company incurred total compensation comprising short-term employee benefits of \$180,173 (2015 – \$175,837), to the directors and officers of the company and incurred \$7,089 (2015 – \$10,434) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

WESTBOND ENTERPRISES CORPORATION
Notes to the Interim Consolidated Financial Statements
September 30, 2016 and 2015
Canadian Dollars
(unaudited)

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
6. COST OF SALES				
Materials	1,087,795	1,108,907	2,209,755	2,156,642
Production labour	209,481	166,307	416,397	329,677
Factory overhead labour	107,760	74,991	216,855	145,824
Variable overhead	80,393	50,313	165,138	94,996
Fixed overhead	126,211	120,599	248,192	243,087
Depreciation	179,158	88,820	355,424	173,516
	<u>1,790,798</u>	<u>1,609,937</u>	<u>3,611,761</u>	<u>3,143,742</u>
7. SELLING AND DISTRIBUTION EXPENSES				
Shipping	154,859	128,651	321,274	249,505
Wages, commissions and other employee benefits	26,707	22,096	50,420	45,630
Other	2,937	4,404	5,666	7,668
	<u>184,503</u>	<u>155,151</u>	<u>377,360</u>	<u>302,803</u>
8. GENERAL AND ADMINISTRATIVE EXPENSES				
Administration and office	46,905	42,926	91,490	81,673
Corporate promotion	2,145	3,190	3,627	4,227
Professional fees	14,316	22,972	27,489	33,307
Salaries and other employee benefits	98,977	97,119	205,424	199,752
	<u>162,343</u>	<u>166,207</u>	<u>328,030</u>	<u>318,959</u>
9. NON-CASH INVESTING ACTIVITIES				
Decrease in plant and equipment purchase liabilities supported by term loan commitments	-	-	-	2,889,425
(Decrease) in accounts payable related to purchase of plant and equipment	(21,729)	(165,146)	(6,834)	(6,895)
	<u>(21,729)</u>	<u>(165,146)</u>	<u>(6,834)</u>	<u>(6,895)</u>