WestBond Enterprises Corporation

Quarterly Report
December 31, 2016

Management Discussion and Analysis

Dated February 14, 2017 to Accompany the Interim Consolidated Financial Statements for the Three and Nine Month Periods Ended December 31, 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 nine month periods ended December 31, 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.

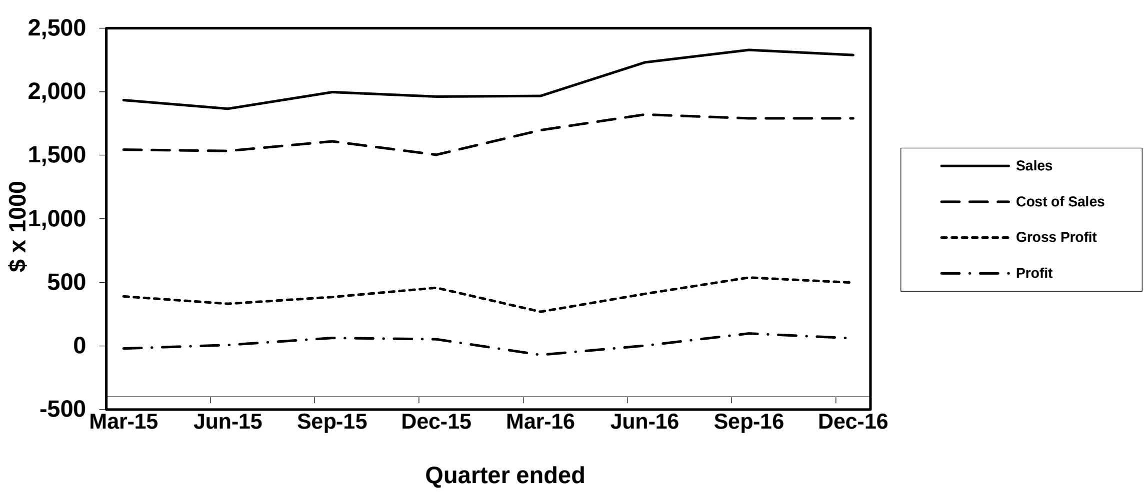
Sales were $2,287,980 for the three months ended December 31, 2016, which is 16.7% higher than for the three months ended December 31, 2015 and 1.8% lower than for the three months ended September 30, 2016. We realized a profit of $59,774 ($0.002 per share) for the three months ended December 31, 2016, compared to a profit of $53,880 ($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.

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.

	Quarters ended							
Cdn$ x 1,000	**Dec 31 2016**	**Sep 30 2016**	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**
Sales	2,288	2,329	2,230	1,966	1,961	1,996	1,865	1,934
Cost of sales	1,791	1,791	1,821	1,696	1,504	1,610	1,534	1,543
Gross profit	497	538	409	270	457	386	331	391
Selling and distribution expenses	185	185	193	142	162	155	147	153
General and administrative expenses	170	162	166	163	153	166	153	156
Operating profit (loss)	142	191	50	(35)	142	65	31	82
Other expenses (income)	60	59	47	57	66	(1)	16	89
Profit (loss) before tax	82	132	3	(92)	76	66	15	(7)
Income tax expense (recovery)	22	35	-	(21)	22	5	7	12
Profit (loss)	60	97	3	(71)	54	61	8	(19)
Earnings (loss) per share, basic and diluted - Cdn$	0.002	0.003	0.000	(0.002)	0.002	0.002	0.000	(0.001)
Sales - % change over previous quarter	-1.8	4.4	13.4	0.3	-1.8	7.0	-3.6	6.1
Costs, expenses and net income - % of Sales								
Cost of sales	78.3	76.9	81.7	86.3	76.7	80.7	82.2	79.8
Selling and distribution expenses	8.1	7.9	8.7	7.3	8.2	7.8	7.9	7.9
General and administrative expenses	7.4	7.0	7.4	8.3	7.8	8.3	8.2	8.1
Other expenses (income)	2.6	2.5	2.1	2.7	3.4	-0.1	0.9	4.6
Income tax expense (recovery)	1.0	1.5	0.0	-1.1	1.1	0.3	0.4	0.6
Profit (loss)	2.6	4.2	0.1	-3.5	2.8	3.0	0.4	-1.0



Sales

Sales for the three months ended December 31, 2016 were 16.7% higher than for the same period last year and 1.8% lower than the previous quarter, ended September 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 December 31		Change over last year	Nine months ended December 31		Change over last year
Product Line	2016 $	2015 $		2016 $	2015 $	
Personal hygiene	994,451	795,016	25.1%	3,120,913	2,618,498	19.2%
Clinical	469,735	395,289	18.8%	1,365,437	1,142,727	19.5%
Long-term care	635,676	697,295	-8.8%	1,804,660	1,867,937	-3.4%
Air laid paper	127,344	-	-	372,325	30,361	1,126.3%
Other	60,773	73,073	-16.8%	183,708	162,142	13.3%
	2,287,980	1,960,673	16.7%	6,847,043	5,821,665	17.6%

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. The 43.6% materials ratio for the three months ended December 31, 2015 was low due to unusually favourable pricing received for some of our purchased paper supplies.

Cost of Sales	Three months ended December 31		Nine months ended December 31	
	2016 % of sales	2015 % of sales	2016 % of sales	2015 % of sales
Materials	47.1%	43.6%	48.0%	51.8%
Production labour	9.5%	11.1%	9.3%	9.4%
Factory overhead labour	4.8%	5.0%	4.8%	4.2%
Variable overhead	3.5%	4.5%	3.5%	3.2%
Fixed overhead	5.6%	6.4%	5.4%	6.3%
Depreciation	7.8%	6.1%	7.9%	4.9%
Gross Margin	21.7%	23.3%	21.1%	20.2%

Selling Expenses

Selling expenses during the three months ended December 31, 2016 were 8.1% of sales, compared to 8.2% for the three months ended December 31, 2015.

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 nine months ended December 31, 2016, the company incurred total short-term employee benefits of $274,673 (2015 – $261,163) to its key management personnel, comprising the directors and officers of the company, and incurred $9,519 (2015 – $11,824) 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 an $8,540 loss in the three months ended December 31, 2016, compared with a $12,377 loss in the same period last year. Interest expense for the nine month periods is higher in 2016 than 2015 because the interest on the term bank loan was capitalized until August 2015 and our revolving bank loan balance has been lower during 2016.

Liquidity, Financial Position and Capital Resources

Our operating cash flows were $956,794 during the nine months ended December 31, 2016, an average of $106,310 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 $774,678 at December 31, 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, term loan payments and equipment purchases.

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 December 31, 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 nine months ended December 31, 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 March 31, 2017 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.

	February 14, 2017
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 nine month periods ended December 31, 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	December 31 2016 $	March 31 2016 $
ASSETS			
Non-Current Assets			
Plant and equipment		8,846,651	9,210,007
Lease deposits		18,012	18,012
Deferred tax asset		-	8,518
		8,864,663	9,236,537
Current Assets			
Inventory		1,121,007	1,150,407
Trade and other receivables		1,088,148	864,993
Income tax recoverable		-	13,456
Prepaid expenses		42,955	38,354
Cash and cash equivalents		267,933	117,279
		2,520,043	2,184,489
Total Assets		11,384,706	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		604,248	443,775
Equity attributable to common shareholders		4,870,547	4,710,074
Liabilities			
Non-Current Liabilities			
Term bank loans	4	4,047,616	4,583,332
Liabilities supported by term loan commitments		-	-
Deferred operating lease liability		124,265	100,608
Deferred tax liability		596,913	547,729
		4,768,794	5,231,669
Current Liabilities			
Revolving bank loans	4	-	101,095
Term bank loans	4	714,288	416,668
Trade and other payables		1,031,077	961,520
		1,745,365	1,479,283
Total Liabilities		6,514,159	6,710,952
Total Equity and Liabilities		11,384,706	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 December 31		Nine months ended December 31	
		2016	2015	2016	2015
		$	$	$	$
Sales		2,287,980	1,960,673	6,847,043	5,821,665
Cost of sales	6	1,790,567	1,503,684	5,402,328	4,647,426
Gross Profit		497,413	456,989	1,444,715	1,174,239
Selling and distribution expenses	7	185,086	161,592	562,446	464,395
General and administrative expenses	8	170,172	153,540	498,202	472,499
Operating Profit		142,155	141,857	384,067	237,345
Foreign exchange loss (gain)		8,540	12,377	7,163	25,918
Gain on forward currency exchange contracts		-	-	-	(24,117)
Interest expense		51,486	53,952	158,729	79,281
Profit Before Tax		82,129	75,528	218,175	156,263
Income tax expense		22,355	21,648	57,702	33,961
Profit and Comprehensive Income		59,774	53,880	160,473	122,302
Weighted average shares outstanding		33,665,800	33,665,800	33,665,800	33,665,800
Earnings per share, basic and fully diluted		0.002	0.002	0.005	0.004

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 December 31, 2015	3,883,225	96,200	286,874	459,319	4,725,618
Balance as at March 31, 2016	3,883,225	96,200	286,874	443,775	4,710,074
Profit for the period	-	-	-	160,473	160,473
Balance as at December 31, 2016	3,883,225	96,200	286,874	604,248	4,870,547

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 December 31		Nine months ended December 31	
		2016	**2015**	**2016**	**2015**
		$	**$**	**$**	**$**
Operating Activities					
Profit		59,774	53,880	160,473	122,302
Adjustments to reconcile profit to cash flows from operating activities					
- depreciation		181,226	122,682	542,777	303,041
- deferred operating lease liability		7,886	10,252	23,657	40,218
- gain on forward currency exchange contracts		-	-	-	(24,117)
- interest expense		51,486	53,952	158,729	79,281
- income tax expense		22,355	21,648	57,702	33,961
- income tax refunded		-	-	13,456	38,723
Cash flows from operating activities before changes in non-cash working capital		322,727	262,414	956,794	593,409
(Increase) decrease in					
- inventory		(6,930)	(123,994)	29,400	(70,571)
- trade and other receivables		(55,765)	(159,465)	(223,155)	10,422
- prepaid expenses		20,042	27,160	(4,601)	(9,933)
(Decrease) increase in					
- trade and other payables		39,501	222,484	14,250	(116,784)
Net Cash Flow from Operating Activities		319,575	228,599	772,688	406,543
Investing Activities					
Purchase of plant and equipment	9	(23,243)	(110,373)	(128,784)	(4,532,334)
Interest capitalized		-	-	-	(60,148)
Realized gain (loss) on forward currency contracts		-	-	-	(166,139)
Net Cash Flow from Investing Activities		(23,243)	(110,373)	(128,784)	(4,758,621)
Financing Activities					
Term loan proceeds		-	-	-	4,709,347
Repayment of term loans		(178,572)	-	(238,096)	-
Decrease in revolving bank loans		-	(18,721)	(101,095)	(329,100)
Interest paid		(51,123)	(53,358)	(154,059)	(74,190)
Net Cash Flow from Financing Activities		(229,695)	(72,079)	(493,250)	4,306,057
Net Increase (Decrease) in Cash and Cash Equivalents		66,637	46,147	150,654	(46,021)
Cash and Cash Equivalents at the Beginning of the Period		201,296	4,242	117,279	96,410
Cash and Cash Equivalents at the End of the Period		267,933	50,389	267,933	50,389

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 and nine month periods ended December 30, 2016 were approved and authorized for issue by resolution of the directors on February 14, 2017.

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 nine months ended December 31, 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 March 31, 2017 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 nine months ended December 31, 2016, the company incurred total compensation comprising short-term employee benefits of $274,673 (2015 – $261,163), to the directors and officers of the company and incurred $9,519 (2015 – $11,824) 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 December 31		Nine months ended December 31	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
6. COST OF SALES				
Materials	1,076,602	854,189	3,286,357	3,010,831
Production labour	218,360	217,695	634,757	547,372
Factory overhead labour	109,407	98,022	326,262	243,846
Variable overhead	80,891	88,652	246,029	183,648
Fixed overhead	127,277	125,563	375,469	368,650
Depreciation	178,030	119,563	533,454	293,079
	1,790,567	1,503,684	5,402,328	4,647,426
7. SELLING AND DISTRIBUTION EXPENSES				
Shipping	155,315	139,103	476,589	388,608
Wages, commissions and other employee benefits	24,151	17,989	74,571	63,619
Other	5,620	4,500	11,286	12,168
	185,086	161,592	562,446	464,395
8. GENERAL AND ADMINISTRATIVE EXPENSES				
Administration and office	46,641	42,836	138,131	124,509
Corporate promotion	2,647	2,618	6,274	6,845
Professional fees	12,630	10,989	40,119	44,296
Salaries and other employee benefits	108,254	97,097	313,678	296,849
	170,172	153,540	498,202	472,499
9. NON-CASH INVESTING ACTIVITIES				
Decrease in plant and equipment purchase liabilities supported by term loan commitments	-	-	-	2,889,425
Increase (decrease) in accounts payable related to purchase of plant and equipment	57,471	(74,543)	50,637	(81,438)