WestBond Enterprises Corporation

Quarterly Report
December 31, 2017

Management Discussion and Analysis

Dated February 23, 2018 to Accompany the Interim Consolidated Financial Statements for the Three and Nine Month Periods Ended December 31, 2017

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 2017 Annual Report. A pdf version of the 2017 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, 2017 and our consolidated financial statements for the year ended March 31, 2017 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 2017 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 30, 2017, the date of the Management Discussion and Analysis in the 2017 Annual Report, is not repeated here.

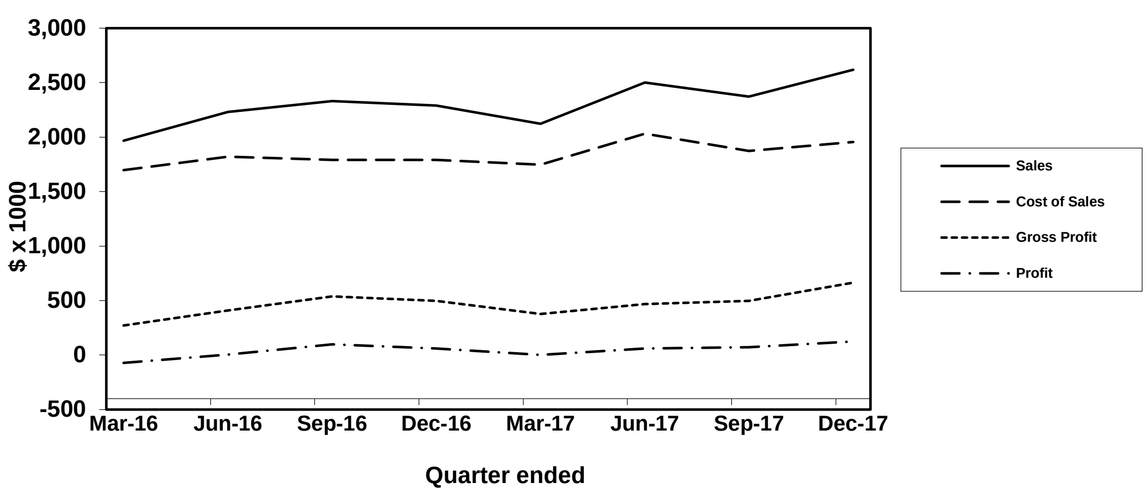
Sales were $2,617,300 for the three months ended December 31, 2017, which is 14.4% higher than for the three months ended December 31, 2016 and 10.4% higher than for the three months ended September 30, 2017. We realized a profit of $124,341 ($0.004 per share) for the three months ended December 31, 2017, compared to a profit of $59,774 ($0.002 per share) for the same period last year The increase is due to higher higher sales volumes and lower materials costs.

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							
	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016
Sales	2,617	2,371	2,499	2,122	2,288	2,329	2,230	1,966
Cost of sales	1,984	1,873	2,030	1,746	1,791	1,791	1,821	1,696
Gross profit	663	498	469	376	497	538	409	270
Selling and distribution expenses	232	207	188	171	185	185	193	142
General and administrative expenses	174	146	164	155	170	162	166	163
Operating profit (loss)	257	145	117	50	142	191	50	(35)
Other expenses (income)	50	44	38	47	60	59	47	57
Profit (loss) before tax	207	101	79	3	82	132	3	(92)
Income tax expense (recovery)	82	27	21	2	22	35	-	(21)
Profit (loss)	125	74	58	1	60	97	3	(71)
Earnings (loss) per share, basic and diluted - Cdn$	0.004	0.002	0.002	0.000	0.002	0.003	0.000	(0.002)
Sales - % change over previous quarter	10.4	-5.1	17.7	-7.2	-1.8	4.4	13.4	0.3
Costs, expenses and net income - % of Sales								
Cost of sales	74.7	79.0	81.2	82.3	78.3	76.9	81.7	86.3
Selling and distribution expenses	8.9	8.8	7.6	8.1	8.1	7.9	8.7	7.3
General and administrative expenses	6.7	6.1	6.6	7.3	7.4	7.0	7.4	8.3
Other expenses (income)	1.9	1.9	1.5	2.2	2.6	2.5	2.1	2.7
Income tax expense (recovery)	3.1	1.1	0.8	0.1	1.0	1.5	0.0	-1.1
Profit (loss)	4.7	3.1	2.3	0.0	2.6	4.2	0.1	-3.5



Sales

Sales for the three months ended December 31, 2017 were 14.4% higher than for the same period last year and 10.4% higher than the previous quarter, ended September 30, 2017. The increase is due to higher sales volumes, particularly in non-clinical air laid products.

Sales	Three months ended December 31		Change over last year	Nine months ended December 31		Change over last year
Product Line	2017 $	2016 $		2017 $	2016 $	
Personal hygiene	1,051,885	994,451	5.8%	3,318,135	3,120,913	6.3%
Clinical	437,324	469,735	-7.9%	1,360,595	1,365,437	-0.4%
Long-term care	736,191	635,676	15.8%	1,879,749	1,804,660	4.2%
Non-clinical air laid products	351,670	148,933	136.1%	771,797	451,494	70.9%
Other	40,230	39,185	2.7%	157,367	104,539	50.5%
	2,617,300	2,287,980	14.4%	7,487,643	6,847,043	9.4%

Cost of Sales

Materials costs, as a percentage of sales, were lower in three months ended December 31, 2017 than in 2016 due to lower raw materials prices. Earlier in the 2017 nine month period we had difficulty purchasing paper in optimum grades, which meant we had to substitute heavier grades than standard, resulting in higher paper usage, and sizes, which caused higher than standard wastage. Our labour efficiency improved during 2017 due to longer production runs, which reduces machine set-up labour. Variable and fixed overheads and depreciation are lower, as a percentage of sales, in 2017 than in 2016 due to higher sales volumes. Fixed overhead has increased in total from higher rent and insurance premiums.

Cost of Sales	Three months ended December 31		Nine months ended December 31	
	2017 % of sales	2016 % of sales	2017 % of sales	2016 % of sales
Materials	46.6%	47.1%	50.1%	48.0%
Production labour	9.1%	9.5%	8.6%	9.3%
Factory overhead labour	3.8%	4.8%	4.3%	4.8%
Variable overhead	3.4%	3.5%	3.1%	3.5%
Fixed overhead	5.1%	5.6%	5.2%	5.4%
Depreciation	6.7%	7.8%	6.9%	7.9%
Gross Profit	25.3%	21.7%	21.8%	21.1%

Selling Expenses

Selling expenses during the three months ended December 31, 2017 were 8.9% of sales, compared to 8.1% for the three months ended December 31, 2016. The increase is from higher shipping costs.

General and Administrative Expenses

Some general and administrative expenses were lower in 2017 than in 2016. Reduced credit card fees caused the decrease in administration and office expense. Salaries and employee benefits are higher due to higher pay rates.

During the nine months ended December 31, 2017 the company incurred total short-term employee benefits of $276,506 (2016 – $274,673) to its key management personnel, comprising the directors and officers of the company, and incurred $6,107 (2016 – $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 resulted in a $4,546 loss in the three months ended December 31, 2017, compared with a $8,545 loss in the same period last year. Interest expense is lower in 2017 than 2016 because of lower loan balances and lower interest rates.

Income tax expense is high during the three months ended December 31, 2017 from a one-time charge of $26,804 to adjust our deferred tax balances to the higher British Columbia income tax rate enacted during the period.

Liquidity, Financial Position and Capital Resources

Our operating cash flows were $440,521 during the three months ended December 31, 2017, an average of $146,840 per month, compared to an average of $100,059 per month during the year ended March 31, 2017, before accounting for fluctuations in non-cash working capital. We had working capital of $1,068,873 at December 31, 2017, compared to $722,413 at March 31, 2017. The increase is due to the improved operating cash flows, offset by 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, 2017. 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 0.5% (reduced from 0.75% during the nine months ended December 31, 2017). 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 with a final payment of the balance of principal on August 22, 2019 (which was extended from August 22, 2018 subsequent to June 30, 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. 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.

In December 2017 we entered into interest rate swaps which convert our variable rate term loan interest to an effective 3.88% fixed rate until November 2022. If long-term market expectations are for interest rates on bankers acceptances to increase, we will reflect an unrealized gain on the interest rate swaps. If the expectations are for rates to decrease, we will reflect an unrealized loss. A 1% rise in the interest rate could create an unrealized gain of approximately $55,000. A 1% decrease could create an unrealized loss of approximately $100,000. As the loan is repaid and the remaining term of the loan decreases, the exposure is reduced. If the loan is repaid on schedule until November 2022, any unrealized gain or loss will be eliminated.

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 23, 2018
Authorized common shares without par value	Unlimited
Issued common shares	33,665,800
Shares issuable on exercise of outstanding stock options	1,850,000
Shares available for future stock option grants	1,516,580

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company.

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, 2017 and 2016 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 2017 $	March 31 2017 $
ASSETS			
Non-Current Assets			
Plant and equipment		8,264,494	8,735,948
Lease deposits		18,012	18,012
Deferred tax asset		-	4,350
		8,282,506	8,758,310
Current Assets			
Inventory		1,118,113	1,180,152
Trade and other receivables		1,284,879	891,105
Income tax recoverable		-	5,055
Prepaid expenses		47,405	41,698
Cash and cash equivalents		435,820	124,677
		2,886,217	2,242,687
Total Assets		11,168,723	11,000,997
EQUITY AND LIABILITIES			
Equity			
Common shares issued and outstanding		3,883,225	3,883,225
Stock options	3	96,200	96,200
Contributed surplus		286,874	286,874
Retained earnings		861,653	604,855
Equity attributable to common shareholders		5,127,952	4,871,154
Liabilities			
Non-Current Liabilities			
Term bank loans	4	3,333,328	3,869,044
Deferred operating lease liability		155,807	132,151
Deferred tax liability		734,292	608,374
		4,223,427	4,609,569
Current Liabilities			
Term bank loans	4	714,288	714,288
Trade and other payables		1,103,056	805,986
		1,817,344	1,520,274
Total Liabilities		6,040,771	6,129,843
Total Equity and Liabilities		11,168,723	11,000,997

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

	Notes	Three months ended December 31		Nine months ended December 31	
		2017	2016	2017	2016
		$	$	$	$
Sales		2,617,300	2,287,980	7,487,643	6,847,043
Cost of sales	6	1,954,459	1,790,567	5,857,121	5,402,328
Gross Profit		662,841	497,413	1,630,522	1,444,715
Selling and distribution expenses	7	232,299	185,086	628,305	562,446
General and administrative expenses	8	174,280	170,172	483,746	498,202
Operating Profit		256,262	142,155	518,471	384,067
Foreign exchange loss (gain)		4,546	8,540	(10,700)	7,163
Interest expense		45,035	51,486	141,857	158,729
Profit Before Tax		206,681	82,129	387,314	218,175
Income tax expense		82,340	22,355	130,516	57,702
Profit and Comprehensive Income		124,341	59,774	256,798	160,473
Weighted average shares outstanding		33,665,800	33,665,800	33,665,800	33,665,800
Earnings per share, basic and fully diluted		0.004	0.002	0.008	0.005

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, 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
Balance as at March 31, 2017	3,883,225	96,200	286,874	604,855	4,871,154
Profit for the period	-	-	-	256,798	256,798
Balance as at December 31, 2017	3,883,225	96,200	286,874	861,653	5,127,952

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	
		2017	**2016**	**2017**	**2016**
				$	**$**
Operating Activities					
Profit		124,341	59,774	256,798	160,473
Adjustments to reconcile profit to cash flows from operating activities					
- depreciation		177,707	181,226	532,487	542,777
- deferred operating lease liability		7,885	7,886	23,656	23,657
- interest expense		45,035	51,486	141,857	158,729
- income tax expense		82,340	22,355	130,516	57,702
- income tax refunded		3,213	-	4,807	13,456
Cash flows from operating activities before changes in non-cash working capital		440,521	322,727	1,090,121	956,794
(Increase) decrease in					
- inventory		(70,985)	(6,930)	62,039	29,400
- trade and other receivables		(149,485)	(55,765)	(393,774)	(223,155)
- prepaid expenses		21,805	20,042	(5,707)	(4,601)
Increase in					
- trade and other payables		270,281	39,501	301,843	14,250
Net Cash Flow from Operating Activities		512,137	319,575	1,054,522	772,688
Investing Activities					
Purchase of plant and equipment	9	(16,083)	(23,243)	(66,928)	(128,784)
Net Cash Flow from Investing Activities		(16,083)	(23,243)	(66,928)	(128,784)
Financing Activities					
Repayment of term loans		(178,572)	(178,572)	(535,716)	(238,096)
Decrease in revolving bank loans		(20,550)	-	-	(101,095)
Interest paid		(42,940)	(51,123)	(140,735)	(154,059)
Net Cash Flow from Financing Activities		(242,062)	(229,695)	(676,451)	(493,250)
Net (Decrease) Increase in Cash and Cash Equivalents		253,992	66,637	311,143	150,654
Cash and Cash Equivalents at the Beginning of the Period		181,828	201,296	124,677	117,279
Cash and Cash Equivalents at the End of the Period		435,820	267,933	435,820	267,933

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 31, 2017 were approved and authorized for issue by resolution of the directors on February 23, 2018.

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, 2018 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, 2017.

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, 2017 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, 2017.

3. STOCK OPTIONS

Subsequent to December 31, 2017 an option to purchase up to 150,000 shares at $0.09 per share terminated without being exercised.

4. TERM BANK LOANS

During the nine months ended December 31, 2017 the final payment of the balance of principal on the company's term bank loan was extended to August 2019 and the company entered into interest rate swaps which effectively fixed the interest on the term bank loan to 3.88% for a five year period ending on November 22, 2022.

5. RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2017, the company incurred total compensation, comprising short-term employee benefits, of $276,506 (2016 – $274,673), to the directors and officers of the company and incurred $6,107 (2016 – $11,824) 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

December 31, 2017 and 2016
Canadian Dollars
(unaudited)

	Three months ended December 31		Nine months ended December 31	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
6. COST OF SALES				
Materials	1,218,796	1,076,602	3,752,606	3,286,357
Production labour	237,519	218,360	643,273	634,757
Factory overhead labour	100,468	109,407	321,212	326,262
Variable overhead	89,531	80,891	230,104	246,029
Fixed overhead	133,546	127,277	386,810	375,469
Depreciation	174,599	178,030	523,116	533,454
	1,954,459	1,790,567	5,857,121	5,402,328
7. SELLING AND DISTRIBUTION EXPENSES				
Shipping	198,391	155,315	527,866	476,589
Wages, commissions and other employee benefits	28,034	24,151	85,004	74,571
Other	5,874	5,620	15,435	11,286
	232,299	185,086	628,305	562,446
8. GENERAL AND ADMINISTRATIVE EXPENSES				
Administration and office	44,463	46,641	116,939	138,131
Corporate promotion	3,536	2,647	9,453	6,274
Professional fees	14,794	12,630	41,085	40,119
Salaries and other employee benefits	111,487	108,254	316,269	313,678
	174,280	170,172	483,746	498,202
9. NON-CASH INVESTING ACTIVITIES				
Increase (decrease) in accounts payable related to purchase of plant and equipment	7,882	57,471	(5,895)	50,637