WestBond Enterprises Corporation

Quarterly Report
June 30, 2018

Management Discussion and Analysis

Dated August 27, 2018 to Accompany the Interim Consolidated Financial Statements for the Three Month Period Ended June 30, 2018

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 currency 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 market segments. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2018 Annual Report. A pdf version of the 2018 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, 2018 and our consolidated financial statements for the year ended March 31, 2018 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 2018 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 25, 2018, the date of the Management Discussion and Analysis in the 2018 Annual Report, is not repeated here.

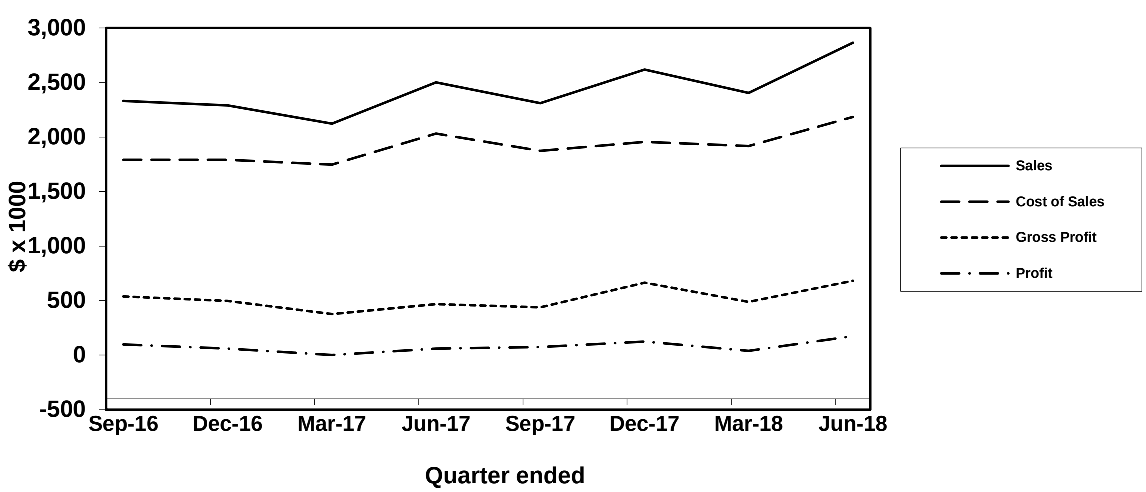
Sales were $2,864,740 for the three months ended June 30, 2018, which is 14.6% higher than for the three months ended June 30, 2017 and 19.2% higher than for the three months ended March 31, 2018. We realized a profit of $172,905 ($0.005 per share) for the three months ended June 30, 2018, compared to a profit of $58,282 ($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.

	Quarters ended							
Cdn$ x 1,000	**Jun 30 2018**	**Mar 31 2018**	**Dec 31 2017**	**Sep 30 2017**	**Jun 30 2017**	**Mar 31 2017**	**Dec 31 2016**	**Sep 30 2016**
Sales	2,865	2,403	2,617	2,310	2,499	2,122	2,288	2,329
Cost of sales	2,183	1,916	1,954	1,873	2,030	1,746	1,791	1,791
Gross profit	682	487	663	437	469	376	497	538
Selling and distribution expenses	245	200	232	207	188	171	185	185
General and administrative expenses	172	174	174	146	164	155	170	162
Operating profit	285	113	257	84	117	50	142	191
Other expenses (income)	30	51	50	(17)	38	47	60	59
Profit before tax	235	62	207	101	79	3	82	132
Income tax expense	62	21	82	27	21	2	22	35
Profit	173	41	125	74	58	1	60	97
Earnings per share, basic and diluted - Cdn$	0.005	0.001	0.004	0.002	0.002	0.000	0.002	0.003
Sales - % change over previous quarter	19.2	-8.2	13.3	-7.6	17.7	-7.2	-1.8	4.4
Costs, expenses and net income - % of Sales								
Cost of sales	76.2	79.7	74.7	81.1	81.2	82.3	78.3	76.9
Selling and distribution expenses	8.5	8.3	8.9	9.0	7.6	8.1	8.1	7.9
General and administrative expenses	6.0	7.2	6.7	6.3	6.6	7.3	7.4	7.0
Other expenses (income)	1.1	2.2	1.9	-0.8	1.5	2.2	2.6	2.5
Income tax expense	2.2	0.9	3.1	1.2	0.8	0.1	1.0	1.5
Profit	6.0	1.7	4.7	3.2	2.3	0.0	2.6	4.2



Sales

Sales for the three months ended June 30, 2018 were 14.6% higher than for the same period last year and 19.2% higher than the previous quarter, ended March 31, 2018. The increase is due to higher sales volumes, particularly in non-clinical air laid products. The decrease in sales of clinical products is due to unusually high sales in the 2017 quarter. The changes in the personal hygiene and long-term care products are within normal fluctuation ranges.

Sales	Three months ended June 30		Change over last year
Product Line	2018 $	2017 $	
Personal hygiene	1,085,409	1,187,896	-8.6%
Clinical	428,491	485,991	-11.8%
Long-term care	699,945	610,044	14.7%
Non-clinical air laid products	642,600	203,707	215.5%
Other	8,295	11,240	-26.2%
	2,864,740	2,498,878	14.6%

Cost of Sales

Materials costs, as a percentage of sales, were lower in three months ended June 30, 2018 than in 2017 due to lower raw materials prices. Factory overhead labour, variable overhead, fixed overhead and depreciation are lower, as a percentage of sales, in 2018 than in 2017 due to higher sales volumes.

Cost of Sales	Three months ended June 30	
	2018 % of sales	2017 % of sales
Materials	50.9%	53.4%
Production labour	8.0%	7.9%
Factory overhead labour	3.8%	4.5%
Variable overhead	3.2%	3.4%
Fixed overhead	4.5%	5.1%
Depreciation	5.8%	6.9%
Gross Profit	23.8%	18.8%

Selling Expenses

Selling expenses during the three months ended June 30, 2018 were 8.6% of sales, compared to 7.5% for the three months ended June 30, 2017. The increase is from higher shipping costs.

General and Administrative Expenses

General and administrative expenses were higher in 2018 than in 2017 due to higher pay rates for salaries and employee benefits.

During the three months ended June 30, 2018 the company incurred total short-term employee benefits of $102,612 (2017 – $103,105) to its key management personnel, comprising the directors and officers of the company, and incurred $2,467 (2017 – $2,213) 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 $1,002 loss in the three months ended June 30, 2018, compared with a $9,738 gain in the same period last year. Interest expense is lower in 2018 than 2017 because of lower loan balances and lower interest rates.

Liquidity, Financial Position and Capital Resources

Our operating cash flows were $440,353 during the three months ended June 30, 2018, an average of $146,784 per month, compared to an average of $115,513 per month during the year ended March 31, 2018, before accounting for fluctuations in non-cash working capital. We had working capital of $1,176,116 at June 30, 2018, compared to $1,071,467 at March 31, 2018. The increase is due to the improved operating cash flows, offset by term loan payments and equipment purchases.

We declared a dividend of $0.0025 per share payable on September 20, 2018 to shareholders of record on September 5, 2018 and quarterly thereafter. We plan to re-invest the rest of 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 June 30, 2018. 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%. 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, 2020 (which was extended from August 22, 2019 after June 30, 2018). 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.

We have 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. During the three months ended June 30, 2018 we had an unrealized gain of $7,313 on the interest rate swaps.

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 *IFRS 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 Custome*rs, 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.

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on our business model for managing our financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to our own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The adoption of this standard did not have a material impact on our consolidated financial statements. .

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 27, 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 month periods ended June 30, 2018 and 2017 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 2018 $	March 31 2018 $
ASSETS			
Non-Current Assets			
Plant and equipment		8,120,143	8,168,099
Lease deposits		18,012	18,012
Deferred tax asset		-	5,594
		8,138,155	8,191,705
Current Assets			
Inventory		937,685	991,503
Trade and other receivables		1,320,939	1,117,994
Income tax recoverable		-	-
Prepaid expenses		40,110	56,414
Cash and cash equivalents		616,919	402,293
		2,915,653	2,568,204
Total Assets		11,053,808	10,759,909
EQUITY AND LIABILITIES			
Equity			
Common shares issued and outstanding		3,883,225	3,883,225
Stock options		88,985	88,985
Contributed surplus		294,089	294,089
Retained earnings	4	1,075,848	902,943
Equity attributable to common shareholders		5,342,147	5,169,242
Liabilities			
Non-Current Liabilities			
Term bank loans	4	2,976,184	3,154,756
Unrealized loss on interest rate swaps		7,182	14,495
Deferred operating lease liability		171,579	163,693
Deferred tax liability		817,179	760,986
		3,972,124	4,093,930
Current Liabilities			
Term bank loans		714,288	714,288
Trade and other payables		1,025,249	782,449
		1,739,537	1,496,737
Total Liabilities		5,711,661	5,590,667
Total Equity and Liabilities		11,053,808	10,759,909

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	
		2018	2017
		$	$
Sales		2,864,740	2,498,878
Cost of sales	5	2,183,168	2,030,102
Gross Profit		681,572	468,776
Selling and distribution expenses	6	244,978	188,412
General and administrative expenses	7	171,514	163,629
Operating Profit		265,080	116,735
Foreign exchange loss (gain)		1,002	(9,738)
Interest expense		36,699	47,199
Unrealized gain on interest rate swaps		(7,313)	-
Profit Before Tax		234,692	79,274
Income tax expense		61,787	20,992
Profit and Comprehensive Income		172,905	58,282
Weighted average shares outstanding		33,665,800	33,665,800
Earnings per share, basic and fully diluted		0.005	0.002

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, 2017	3,883,225	96,200	286,874	604,855	4,871,154
Profit for the period	-	-	-	58,282	58,282
Balance as at June 30, 2017	3,883,225	96,200	286,874	663,137	4,929,436
Balance as at March 31, 2018	3,883,225	88,985	294,089	902,943	5,169,242
Profit for the period	-	-	-	172,905	172,905
Balance as at June 30, 2018	3,883,225	88,985	294,089	1,075,848	5,342,147

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 2018	Three months ended June 30 2017
		$	$
Operating Activities			
Profit		172,905	58,282
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation		168,389	176,668
- deferred operating lease liability		7,886	7,885
- unrealized gain on interest rate swaps		(7,313)	-
- interest expense		36,699	47,199
- income tax expense		61,787	20,992
Cash flows from operating activities before changes in non-cash working capital		440,353	311,026
(Increase) decrease in			
- inventory		53,818	67,469
- trade and other receivables		(202,945)	(270,501)
- prepaid expenses		16,304	17,867
Increase in			
- trade and other payables		225,848	357,768
Net Cash Flow from Operating Activities		533,378	483,629
Investing Activities			
Purchase of plant and equipment	8	(97,610)	(31,476)
Financing Activities			
Repayment of term loans		(178,572)	(178,572)
Interest paid		(42,570)	(48,508)
Net Cash Flow from Financing Activities		(221,142)	(227,080)
Net Increase in Cash and Cash Equivalents		214,626	225,073
Cash and Cash Equivalents at the Beginning of the Period		402,293	124,677
Cash and Cash Equivalents at the End of the Period		616,919	349,750

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 supplies disposable paper 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 period ended June 30, 2018 were approved and authorized for issue by resolution of the directors on August 27, 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, 2019 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, 2018.

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, 2018 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, 2018.

3. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2018 the company incurred total compensation, comprising short-term employee benefits, of $102,612 (2017 – $103,105), to the directors and officers of the company and incurred $2,467 (2017 – $2,213) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

4. SUBSEQUENT EVENTS

Subsequent to June 30, 2018:

the company declared a dividend of $0.0025 per share payable on September 20, 2018 to shareholders of record on September 5, 2018, and quarterly thereafter; and

the final payment of the term bank loan was extended to August 22, 2020.

	Three months ended June 30	
	2018	**2017**
	$	**$**
5. COST OF SALES		
Materials	1,458,931	1,335,455
Production labour	230,164	196,918
Factory overhead labour	109,564	112,950
Variable overhead	92,135	83,548
Fixed overhead	127,095	127,720
Depreciation	165,279	173,511
	2,183,168	2,030,102
6. SELLING AND DISTRIBUTION EXPENSES		
Shipping	211,416	153,460
Wages, commissions and other employee benefits	29,584	27,739
Other	3,978	7,213
	244,978	188,412
7. GENERAL AND ADMINISTRATIVE EXPENSES		
Administration and office	37,729	38,054
Corporate promotion	1,062	788
Professional fees	14,811	13,655
Salaries and other employee benefits	117,912	111,132
	171,514	163,629
8. NON-CASH INVESTING ACTIVITIES		
Increase (decrease) in accounts payable related to purchase of plant and equipment	22,823	(12,197)