



WestBond Enterprises Corporation

Quarterly Report September 30, 2018

Management Discussion and Analysis

Dated November 19, 2018 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 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 and six month periods ended September 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 \$2,725,671 for the three months ended September 30, 2018, which is 18.0% higher than for the three months ended September 30, 2017 and 4.9% lower than for the three months ended June 30, 2018. We realized a profit of \$61,134 (\$0.002 per share) for the three months ended September 30, 2018, compared to a profit of \$74,175 (\$0.002 per share) for the same period last year

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

WestBond Enterprises Corporation

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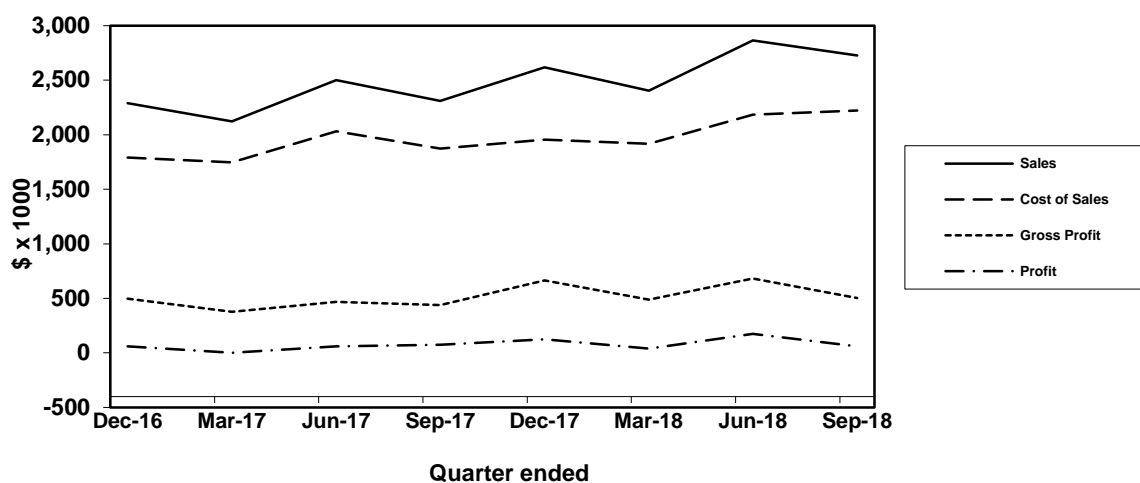
Summary of Quarterly Results

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 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016
Sales	2,726	2,865	2,403	2,617	2,310	2,499	2,122	2,288
Cost of sales	2,223	2,183	1,916	1,954	1,873	2,030	1,746	1,791
Gross profit	503	682	487	663	437	469	376	497
Selling and distribution expenses	207	245	200	232	207	188	171	185
General and administrative expenses	170	172	174	174	146	164	155	170
Operating profit	126	285	113	257	84	117	50	142
Other expenses (income)	39	30	51	50	(17)	38	47	60
Profit before tax	87	235	62	207	101	79	3	82
Income tax expense	26	62	21	82	27	21	2	22
Profit	61	173	41	125	74	58	1	60
Earnings per share, basic and diluted - Cdn\$	0.002	0.005	0.001	0.004	0.002	0.002	0.000	0.002
Dividends paid per share - Cdn\$	0.0025	0.0000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000
Sales - % change over previous quarter	-4.9	19.2	-8.2	13.3	-7.6	17.7	-7.2	-1.8

Costs, expenses and net income - % of Sales

Cost of sales	81.5	76.2	79.7	74.7	81.1	81.2	82.3	78.3
Selling and distribution expenses	7.6	8.5	8.3	8.9	9.0	7.6	8.1	8.1
General and administrative expenses	6.3	6.0	7.2	6.7	6.3	6.6	7.3	7.4
Other expenses (income)	1.4	1.1	2.2	1.9	-0.8	1.5	2.2	2.6
Income tax expense	1.0	2.2	0.9	3.1	1.2	0.8	0.1	1.0
Profit	2.2	6.0	1.7	4.7	3.2	2.3	0.0	2.6



Sales

Sales for the three months ended September 30, 2018 were 18.0% higher than for the same period last year and 4.9% lower than the previous quarter, ended September 30, 2018. The increase over last year is due to rapidly expanding sales in the non-clinical air laid products and to last year being low due to an equipment breakdown that shut down our air laid paper machine for one month. The decrease in sales of long-term care products is due to the loss of a significant customer. The changes in the personal hygiene and clinical products are within normal fluctuation ranges.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2018	2017		2018	2017	
	\$	\$		\$	\$	
Personal hygiene	1,079,913	1,078,354	0.1%	2,165,322	2,266,250	-4.5%
Clinical	419,124	437,280	-4.2%	847,615	923,271	-8.2%
Long-term care	422,402	533,514	-20.8%	1,122,347	1,143,558	-1.9%
Non-clinical air laid products	803,587	216,420	271.3%	1,446,187	420,127	244.2%
Other	645	44,089	-98.5%	8,940	55,329	-83.8%
	<u>2,725,671</u>	<u>2,309,657</u>	<u>18.0%</u>	<u>5,590,411</u>	<u>4,808,535</u>	<u>16.3%</u>

Cost of Sales

Materials costs, as a percentage of sales, were higher in the three months ended September 30, 2018 than in 2017 due to increase raw materials prices and lower paper yields. Factory overhead labour, fixed overhead and depreciation are lower, as a percentage of sales, in 2018 than in 2017 due to higher sales volumes. Variable overhead was higher due to increased maintenance activities.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
	% of sales	% of sales	% of sales	% of sales
Materials	53.7%	51.9%	52.3%	52.7%
Production labour	8.6%	9.0%	8.3%	8.4%
Factory overhead labour	4.3%	4.7%	4.1%	4.6%
Variable overhead	3.8%	2.5%	3.5%	2.9%
Fixed overhead	4.8%	5.4%	4.6%	5.3%
Depreciation	6.3%	7.6%	6.0%	7.3%
Gross Profit	<u>18.5%</u>	<u>18.9%</u>	<u>21.2%</u>	<u>18.8%</u>

Selling Expenses

Selling expenses during the three months ended September 30, 2018 were 7.6% of sales, compared to 9.0% for the three months ended September 30, 2017. The decrease is due to the product mix – non-clinical air laid products, particularly parent rolls, have a much lower shipping cost to sales value ratio than the other products.

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 and increased legal and audit fees.

During the six months ended September 30, 2018 the company incurred total short-term employee benefits of \$200,585 (2017 – \$179,326) to its key management personnel, comprising the directors and officers of the company, and incurred \$7,426 (2017 – \$3,913) 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 \$3,366 gain in the three months ended September 30, 2018, compared with a \$5,508 gain in the same period last year. Interest expense is lower in 2018 than 2017 because of lower loan balances and lower interest rates. We recognized an

unrealized loss of \$6,456 to reflect the market value fluctuation of our interest rate swap during the three months ended September 30, 2018

Liquidity, Financial Position and Capital Resources

Our operating cash flows were \$751,546 during the six months ended September 30, 2018, an average of \$125,258 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 \$1,113,023 at September 30, 2018, compared to \$1,071,467 at March 31, 2018. The increase is due to the improved operating cash flows, offset by dividends, 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. The next quarterly dividend of \$0.0025 per share will be paid on December 20, 2018 to shareholders of record on December 5, 2018. 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 September 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 during the six months ended September 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. At September 30, 2018 we had an unrealized loss of \$13,638 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 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.

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.

	<u>November 19, 2018</u>
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 six month periods ended September 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)

		September 30 2018	March 31 2018
	Notes	\$	\$
ASSETS			
Non-Current Assets			
Plant and equipment		8,021,950	8,168,099
Lease deposits		18,012	18,012
Deferred tax asset		-	5,594
		<u>8,039,962</u>	<u>8,191,705</u>
Current Assets			
Inventory		1,067,907	991,503
Trade and other receivables		1,323,135	1,117,994
Prepaid expenses		91,558	56,414
Cash and cash equivalents		496,682	402,293
		<u>2,979,282</u>	<u>2,568,204</u>
Total Assets		<u>11,019,244</u>	<u>10,759,909</u>
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	<u>1,052,817</u>	<u>902,943</u>
Equity attributable to common shareholders		<u>5,319,116</u>	<u>5,169,242</u>
Liabilities			
Non-Current Liabilities			
Term bank loans	5	2,797,612	3,154,756
Unrealized loss on interest rate swaps		13,638	14,495
Deferred operating lease liability		179,464	163,693
Deferred tax liability		<u>843,155</u>	<u>760,986</u>
		<u>3,833,869</u>	<u>4,093,930</u>
Current Liabilities			
Term bank loans		714,288	714,288
Trade and other payables		<u>1,151,971</u>	<u>782,449</u>
		<u>1,866,259</u>	<u>1,496,737</u>
Total Liabilities		<u>5,700,128</u>	<u>5,590,667</u>
Total Equity and Liabilities		<u>11,019,244</u>	<u>10,759,909</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	
		2018	2017	2018	2017
		\$	\$	\$	\$
Sales		2,725,671	2,309,657	5,590,411	4,808,535
Cost of sales	6	2,222,413	1,872,560	4,405,581	3,902,662
Gross Profit		503,258	437,097	1,184,830	905,873
Selling and distribution expenses	7	207,232	207,594	452,210	396,006
General and administrative expenses	8	170,455	145,837	341,969	309,466
Operating Profit		125,571	83,666	390,651	200,401
Foreign exchange gain		(3,366)	(5,508)	(2,364)	(15,246)
Proceeds from business interruption insurance claim		-	(61,808)	-	(61,808)
Interest expense		35,371	49,623	72,070	96,822
Unrealized loss (gain) on interest rate swaps		6,456	-	(857)	-
Profit Before Tax		87,110	101,359	321,802	180,633
Income tax expense		25,976	27,184	87,763	48,176
Profit and Comprehensive Income		61,134	74,175	234,039	132,457
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	0.007	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, 2017	3,883,225	96,200	286,874	604,855	4,871,154
Profit for the period	-	-	-	132,457	132,457
Balance as at September 30, 2017	<u>3,883,225</u>	<u>96,200</u>	<u>286,874</u>	<u>737,312</u>	<u>5,003,611</u>
Balance as at March 31, 2018	3,883,225	88,985	294,089	902,943	5,169,242
Dividends paid	-	-	-	(84,165)	(84,165)
Profit for the period	-	-	-	234,039	234,039
Balance as at September 30, 2018	<u>3,883,225</u>	<u>88,985</u>	<u>294,089</u>	<u>1,052,817</u>	<u>5,319,116</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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating Activities				
Profit	61,134	74,175	234,039	132,457
Adjustments to reconcile profit to cash flows from operating activities				
- depreciation	174,371	178,112	342,760	354,780
- deferred operating lease liability	7,885	7,886	15,771	15,771
- unrealized loss (gain) on interest rate swaps	6,456	-	(857)	-
- interest expense	35,371	49,623	72,070	96,822
- income tax expense	25,976	27,184	87,763	48,176
- income tax refunded	-	1,594	-	1,594
Cash flows from operating activities before changes in non-cash working capital	311,193	338,574	751,546	649,600
(Increase) decrease in				
- inventory	(130,222)	65,555	(76,404)	133,024
- trade and other receivables	(2,196)	26,212	(205,141)	(244,289)
- prepaid expenses	(51,448)	(45,379)	(35,144)	(27,512)
Increase in				
- trade and other payables	175,929	(326,206)	401,777	31,562
Net Cash Flow from Operating Activities	303,256	58,756	836,634	542,385
Investing Activities				
Purchase of plant and equipment	9	(125,385)	(19,369)	(222,995)
Financing Activities				
Dividends paid	(84,165)	-	(84,165)	-
Repayment of term loans	(178,572)	(178,572)	(357,144)	(357,144)
Increase in revolving bank loans	-	20,550	-	20,550
Interest paid	(35,371)	(49,287)	(77,941)	(97,795)
Net Cash Flow from Financing Activities	(298,108)	(207,309)	(519,250)	(434,389)
Net (Decrease) Increase in Cash and Cash Equivalents	(120,237)	(167,922)	94,389	57,151
Cash and Cash Equivalents at the Beginning of the Period	616,919	349,750	402,293	124,677
Cash and Cash Equivalents at the End of the Period	496,682	181,828	496,682	181,828

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, 2018 and 2017

(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 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 and six month periods ended September 30, 2018 were approved and authorized for issue by resolution of the directors on November 19, 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 six months ended September 30, 2018 the company incurred total compensation, comprising short-term employee benefits, of \$200,585 (2017 – \$179,326), to the directors and officers of the company and incurred \$7,426 (2017 – \$3,913) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

4. SUBSEQUENT EVENT

Subsequent to September 30, 2018 the company declared a dividend of \$0.0025 per share payable on December 20, 2018 to shareholders of record on December 5, 2018.

5. TERM BANK LOAN

The final payment of the term bank loan was extended to August 22, 2020 during the nine months ended September 30, 2018.

WESTBOND ENTERPRISES CORPORATION
Notes to the Interim Consolidated Financial Statements
September 30, 2018 and 2017
Canadian Dollars
(unaudited)

	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
6. COST OF SALES				
Materials	1,461,945	1,198,355	2,920,876	2,533,810
Production labour	235,463	208,836	465,627	405,754
Factory overhead labour	117,421	107,794	226,985	220,744
Variable overhead	103,942	57,025	196,077	140,573
Fixed overhead	131,757	125,544	258,852	253,264
Depreciation	171,885	175,006	337,164	348,517
	2,222,413	1,872,560	4,405,581	3,902,662
7. SELLING AND DISTRIBUTION EXPENSES				
Shipping	176,860	176,015	388,276	329,475
Wages, commissions and other employee benefits	26,951	29,231	56,535	56,970
Other	3,421	2,348	7,399	9,561
	207,232	207,594	452,210	396,006
8. GENERAL AND ADMINISTRATIVE EXPENSES				
Administration and office	36,985	34,422	74,714	72,476
Corporate promotion	4,393	5,129	5,455	5,917
Professional fees	16,810	12,636	31,621	26,291
Salaries and other employee benefits	112,267	93,650	230,179	204,782
	170,455	145,837	341,969	309,466
9. NON-CASH INVESTING ACTIVITIES				
Decrease in accounts payable related to purchase of plant and equipment	(49,207)	(1,580)	(26,384)	(13,777)