



# **WestBond Enterprises Corporation**

## **Quarterly Report June 30, 2020**

### **Management Discussion and Analysis**

Dated August 27, 2020 to Accompany the Interim Consolidated Financial Statements for the Three Month Period Ended June 30, 2020

**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 manufactures disposable paper products for medical, hygienic and industrial uses. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2020 Annual Report. A pdf version of the 2020 Annual Report may be downloaded from our web site at [www.westbond.ca](http://www.westbond.ca) or from the SEDAR web site at [www.sedar.com](http://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, 2020 and our consolidated financial statements for the year ended March 31, 2020 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 2020 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 18, 2020, the date of the Management Discussion and Analysis in the 2020 Annual Report, is not repeated here.

Sales were \$1,955,341 for the three months ended June 30, 2020, which is 28.8% lower than for the three months ended June 30, 2019 and 33.4% lower than for the three months ended March 31, 2020. We realized a net loss of \$2,814 (\$0.000 per share) for the three months ended June 30, 2020, a decrease of 102.3% over the profit of \$124,303 (\$0.004 per share) for the same period last year. The decrease in both sales and profit is due to the covid-19 pandemic shutdowns.

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

#### **WestBond Enterprises Corporation**

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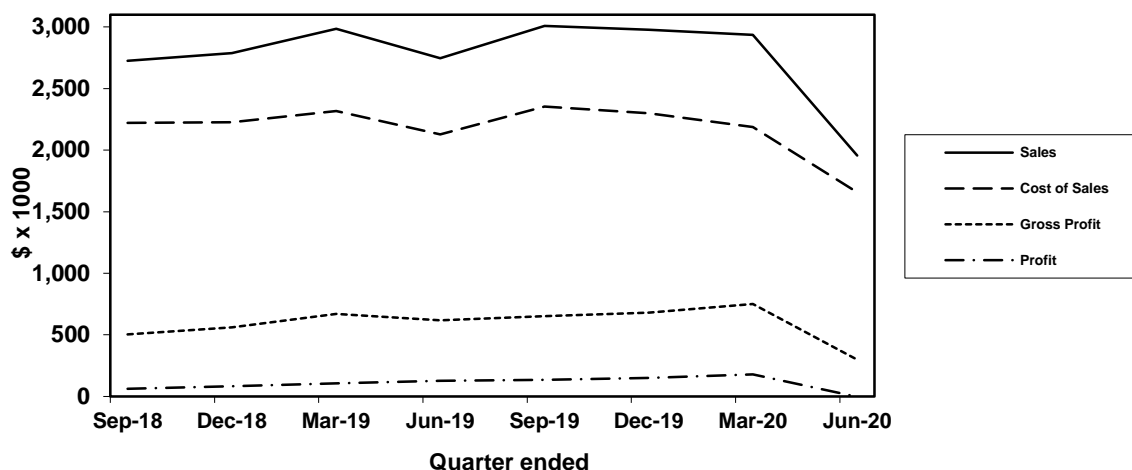
## Summary of Quarterly Results

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							
	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018
Sales	1,955	2,936	2,978	3,007	2,746	2,985	2,788	2,726
Cost of sales	1,656	2,186	2,298	2,354	2,128	2,317	2,228	2,223
Gross profit	299	750	680	653	618	668	560	503
Selling and distribution expenses	186	224	249	233	216	220	224	207
General and administrative expenses	181	176	184	178	171	253	168	170
Operating (loss) profit	(68)	350	247	242	231	195	168	126
Other (income) expenses	(64)	87	44	56	59	43	55	39
(Loss)profit before tax	(4)	263	203	186	172	152	113	87
Income tax (recovery) expense	(1)	84	52	49	48	48	31	26
(Net loss) profit	(3)	179	151	137	124	104	82	61
(Loss) earnings per share, basic and diluted - Cdn\$	(0.000)	0.005	0.004	0.004	0.004	0.003	0.002	0.002
Dividends paid per share - Cdn\$	-	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Sales - % change over previous quarter</b>	<b>-33.4</b>	<b>-1.4</b>	<b>-0.9</b>	<b>9.5</b>	<b>-8.0</b>	<b>7.1</b>	<b>2.3</b>	<b>-4.9</b>

### Costs, expenses and net income - % of Sales

Cost of sales	84.7	74.4	77.1	78.3	77.5	77.6	79.9	81.5
Selling and distribution expenses	9.5	7.6	8.3	7.7	7.9	7.4	8.1	7.6
General and administrative expenses	9.3	6.0	6.2	5.9	6.2	8.5	6.0	6.3
Other (income) expenses	(3.3)	3.0	1.5	1.9	2.1	1.4	2.0	1.4
Income tax (recovery) expense	(0.1)	2.9	1.8	1.6	1.8	1.6	1.1	1.0
Net (loss) profit	(0.1)	6.1	5.1	4.6	4.5	3.5	2.9	2.2



## Sales

Sales for the three months ended June 30, 2020 were 28.8% lower than for the same period last year and 33.4% lower than the previous quarter, ended March 31, 2020. As a supplier of clinical and personal hygiene products, essential services, we have remained in operation during the covid-19 pandemic shut-downs, which started in March 2020. Toilet paper and long-term care products were in high demand during March and April 2020. Toilet paper demand dropped off in May and June due to over stockpiling in March and April. Clinical products demand has fallen as most clinics and doctors' offices are not seeing patients. Long-term care products continue in high demand. Demand for non-clinical air laid products, which primarily end up in restaurants, has fallen. We are currently operating at around 60% of the levels for the year ended March 2020. We are unable to predict how much longer the pandemic shut-downs will last.

We are currently installing a wet-wipe production line and have developed a disinfectant wipe which uses our air laid paper, or the industry standard nonwoven paper, in a small flip-top tub dispenser. Health Canada has approved our disinfectant wipe application and issued it a Drug Identification Number. Current demand for the product is high. We expect sales of this product to commence the last week of August 2020 under the trademark ViroBan Plus. We expect volumes to significantly increase our revenues.

Sales	Three months ended		Change over last year
	June 30		
Product Line	2020	2019	
	\$	\$	
Personal hygiene	712,459	969,834	-26.5%
Clinical	313,837	453,102	-30.7%
Long-term care	726,995	454,207	60.1%
Non-clinical air laid	185,923	856,473	-78.3%
Other	16,127	12,428	29.7%
	<u>1,955,354</u>	<u>2,746,044</u>	<u>-28.8%</u>

## Cost of Sales

Our toilet paper costs increased by 14% in April 2020, and settled down to 7% in June 2020, over the pre-pandemic cost. Otherwise, materials costs, as a percentage of sales, were relatively stable during the three months ended June 30, 2020. Factory overhead labour is high due to the payment of non-recurring bonuses. Variable and fixed overhead and depreciation are high, as a percentage of sales, due to the decrease in sales.

Cost of Sales	Three months ended June 30	
	2020	2019
	% of sales	% of sales
Materials	47.2%	48.5%
Production labour	9.7%	9.6%
Factory overhead labour	7.5%	4.2%
Variable overhead	5.8%	5.1%
Fixed overhead	2.9%	1.7%
Depreciation of plant equipment	8.4%	6.1%
Depreciation of right-of-use assets	3.3%	2.3%
Gross Profit	<u>15.3%</u>	<u>22.5%</u>

## Selling and Distribution Expenses

Selling and distribution expenses during the three months ended June 30, 2020 were 9.5% of sales, compared to 7.7% for the three months ended June 30, 2019. The increase is due to the reduction in non-clinical air laid products, which have a lower shipping cost per sales value than our other products and to \$12,364 in product development costs for the ViroBan Plus wet wipes.

## General and Administrative Expenses

Administrative and office expenses were higher in the three months ended June 30, 2020 than in 2019 from an increase in audit fees and the recognition of an impairment loss on trade receivables from one of

our smaller customers. Salary and other employee benefits decreased due to lower sales bonus based , compensation.

During the three months ended June 30, 2020 the company incurred total short-term employee benefits of \$90,394 (2019 – \$96,139) to its key management personnel, comprising the directors and officers of the company, and incurred \$3,376 (2019 – \$2,340) of professional fees in the normal course of operations paid to DuMoulin Black LLP, a law firm with which J. Douglas Seppala, a director of the company, is associated. 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 \$1,394 loss during the three months ended June 30, 2020, compared with a \$7,821 gain in the same period last year. Interest expense on bank loans and lease liabilities is lower in 2020 than 2019 because of lower principal balances. The Canadian government emergency wage subsidy for May and June 2020 amounted to \$116,568. We did not qualify for the subsidy in April 2020 due to strong sales of toilet paper. We recognized an unrealized gain of \$2,028 to reflect the market value fluctuation of our interest rate swap during the three months ended June 30, 2020.

### **Liquidity, Financial Position and Capital Resources**

Our operating cash flows were \$282,034 during the three months ended June 30, 2020, an average of \$94,011 per month, compared to an average of \$170,785 per month during the year ended March 31, 2020, before accounting for fluctuations in non-cash working capital. We had working capital of \$991,356 at June 30, 2020, compared to \$1,183,745 at March 31, 2020. The change is due to positive operating cash flows offset by equipment purchases, term loan and interest payments and lease principal and interest payments.

We have suspended payment of our quarterly dividend effective June 2020 in order to ensure sufficient funds are available to invest in our new disinfectant wet-wipe production equipment and inventory. We intend to spend around \$1,000,000 over the next year, which we will finance from operating flows, supplemented with our revolving bank loan facility.

We have a revolving bank loan facility of \$1,500,000. The loan outstanding at any time may not be greater than an amount based on percentages of accounts receivable and inventory less accounts payable having priority over the bank. The amount currently available, based on our Consolidated Statement of Financial Position at June 30, 2020, is \$1,015,000. Loans outstanding under the facility bear interest at bank prime plus 0.5%. Substantially all of our assets are pledged as collateral for the revolving bank loan facility. No loans were outstanding at June 30, 2020.

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, 2023. 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.

At June 30, 2020 we are in compliance with all of our covenants to the bank regarding the revolving bank loan facility and the term credit facility and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with the covenants, and are unable to obtain a waiver from the bank, the loans will become payable on demand.

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 June 30, 2020 we had an unrealized loss of \$62,911 on the interest rate swaps.

## 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>August 27, 2020</u>
Authorized common shares without par value	Unlimited
Issued common shares	35,515,800
Shares issuable on exercise of outstanding stock options	Nil
Shares available for future stock option grants	3,551,580

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](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://www.westbond.ca).



***WestBond Enterprises Corporation***

***Notice to Reader***

The accompanying interim consolidated financial statements of WestBond Enterprises Corporation for the three month period ended June 30, 2020 and 2019 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 2020 \$	March 31 2020 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment		7,586,927	7,564,112
Right-of-use assets		2,587,957	2,657,020
Deferred tax asset		16,193	18,845
		10,191,077	10,239,977
<b>Current Assets</b>			
Inventory		1,838,265	1,286,708
Trade and other receivables		760,286	1,611,361
Prepaid expenses		67,767	88,292
Cash and cash equivalents		289,982	394,051
		2,956,300	3,380,412
<b>Total Assets</b>		13,147,377	13,620,389
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Common shares issued and outstanding		4,138,710	4,138,710
Contributed surplus		294,089	294,089
Retained earnings		1,455,404	1,458,218
<b>Equity attributable to common shareholders</b>		5,888,203	5,891,017
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Term bank loans		1,547,608	1,726,180
Unrealized loss on interest rate swap		62,911	64,939
Lease liability		2,459,991	2,514,018
Deferred tax liability		1,223,720	1,227,568
		5,294,230	5,532,705
<b>Current Liabilities</b>			
Term bank loans		714,288	714,288
Lease liability		210,323	207,983
Trade and other payables		1,040,333	1,274,396
		1,964,944	2,196,667
<b>Total Liabilities</b>		7,259,174	7,729,372
<b>Total Equity and Liabilities</b>		13,147,377	13,620,389
<b>Commitments</b>	4		

The accompanying notes are an integral part of these interim consolidated financial statements.

**WestBond Enterprises Corporation**  
**Consolidated Statements of (Net Loss) Profit and Comprehensive (Loss) Income**  
Canadian Dollars  
(Unaudited)

	Notes	Three months ended June 30	
		2020 \$	2019 \$
Sales	5	1,955,341	2,746,044
Cost of sales	6	1,656,354	2,127,467
<b>Gross Profit</b>		298,987	618,577
Selling and distribution expenses	7	186,308	216,318
General and administrative expenses	8	181,186	171,315
<b>Operating Profit</b>		(68,507)	230,944
Foreign exchange loss (gain)		1,394	(7,821)
Interest expense on bank loans		22,900	29,796
Interest expense on lease liabilities		29,803	31,904
Government Emergency Wage Subsidy		(116,568)	-
Unrealized (gain) loss on interest rate swap		(2,028)	4,574
<b>(Loss) Profit Before Tax</b>		(4,008)	172,491
Income tax (recovery) expense		(1,194)	48,188
<b>(Net Loss) Profit and Comprehensive (Loss) Income</b>		(2,814)	124,303
Weighted average shares outstanding		35,515,800	33,692,923
(Net loss) earnings per share, basic and fully diluted		(0.000)	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
	\$	\$	\$	\$	\$
<b>Balance as at March 31, 2019</b>	3,903,940	81,770	294,089	1,071,338	5,351,137
<b>Adjustment of opening balance on adoption of IFRS 16</b>	-	-	-	142,522	142,522
<b>Balance as at April 1, 2019</b>	3,903,940	81,770	294,089	1,213,860	5,493,659
<b>Dividends paid, \$0.025 per share</b>	-	-	-	(84,540)	(84,540)
<b>Profit for the period</b>	-	-	-	124,303	124,303
<b>Balance as at June 30, 2019</b>	3,903,940	81,770	294,089	1,253,623	5,533,422
<b>Balance as at March 31, 2020</b>	4,138,710	-	294,089	1,458,218	5,891,017
<b>Net loss for the period</b>	-	-	-	(2,814)	(2,814)
<b>Balance as at June 30, 2020</b>	4,138,710	-	294,089	1,455,404	5,888,203

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	
		2020	2019
		\$	\$
<b>Operating Activities</b>			
(Net loss) Profit		(2,814)	124,303
Adjustments to reconcile (net loss) profit to cash flows from operating activities			
- depreciation of plant and office equipment		166,304	168,433
- depreciation of right-of-use assets		69,063	69,063
- unrealized (gain) loss on interest rate swap		(2,028)	4,574
- interest expense on bank loans		22,900	29,796
- interest expense on lease liabilities		29,803	31,904
- income tax (recovery) expense		(1,194)	48,188
Cash flows from operating activities before changes in non-cash working capital		282,034	476,261
Decrease (increase) in			
- inventory		(551,557)	(197,476)
- trade and other receivables		851,075	27,944
- prepaid expenses		18,098	26,151
(Decrease) increase in			
- trade and other payables		(269,822)	81,539
<b>Net Cash Flow from Operating Activities</b>		<b>329,828</b>	<b>414,419</b>
<b>Investing Activities</b>			
Purchase of plant and equipment	9	(153,635)	(177,839)
<b>Financing Activities</b>			
Dividends paid		-	(84,540)
Repayment of term loans		(178,572)	(178,572)
Interest paid on bank loans		(20,473)	(29,754)
Interest portion of lease payments		(29,530)	(21,438)
Principal portion of lease payments		(51,687)	(53,326)
<b>Net Cash Flow from Financing Activities</b>		<b>(280,262)</b>	<b>(367,630)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>		<b>(104,069)</b>	<b>(131,050)</b>
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		<b>394,051</b>	<b>474,030</b>
<b>Cash and Cash Equivalents at the End of the Period</b>		<b>289,982</b>	<b>342,980</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Interim Consolidated Financial Statements

June 30, 2020 and 2019

(Canadian Dollars)

(unaudited)

### 1. GENERAL INFORMATION

WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc., (together, the company) are a paper manufacturer and converter that manufactures disposable products for medical, hygienic and industrial uses. The company's manufacturing facilities are in Canada and its sales are primarily to Canada and the United States of America. The company is incorporated in British Columbia, Canada, and has its principal place of business at 101 – 7403 Progress Way, Delta, British Columbia.

The interim consolidated financial statements of the company for the three month period ended June 30, 2020 were approved and authorized for issue by resolution of the directors on August 27, 2020.

### 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, 2021 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, 2020.

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, 2020 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, 2020.

### 3. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2020 the company incurred total compensation, comprising short-term employee benefits, of \$90,394 (2019 – \$96,139), to the directors and officers of the company and incurred \$3,376 (2019 – \$2,340) of legal fees in the normal course of operations with a firm in which a director of the company is associated.

### 4. COMMITMENTS

Commitments to purchase equipment for US\$193,849 were outstanding at June 30, 2020, including the commitment of US\$14,000 outstanding at March 31, 2020. The irrevocable letter of credit outstanding at March 31, 2020 expired during the three months ended June 30, 2020.

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
June 30, 2020 and 2019  
Canadian Dollars  
(unaudited)

	<b>Three months ended</b>	
	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>5. SALES</b>		
Personal hygiene products	712,459	969,834
Clinical products	313,837	453,102
Long-term care products	726,995	454,207
Non-clinical air laid products	185,923	856,473
Other products	16,127	12,428
	<u>1,955,341</u>	<u>2,746,044</u>
<b>6. COST OF SALES</b>		
Materials	922,337	1,331,147
Production labour	189,120	263,602
Factory overhead labour	146,459	116,807
Variable overhead	113,371	139,185
Fixed overhead	56,351	45,838
Depreciation of plant equipment	164,349	166,521
Depreciation of right-of-use assets	64,367	64,367
	<u>1,656,354</u>	<u>2,127,467</u>
<b>7. SELLING AND DISTRIBUTION EXPENSES</b>		
Shipping	151,108	187,630
Wages, commissions and other employee benefits	18,975	26,845
Other	16,225	1,843
	<u>186,308</u>	<u>216,318</u>
<b>8. GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Administration and office	26,429	27,307
Corporate promotion	875	1,035
Depreciation of right-of-use assets	4,696	4,696
Impairment loss on trade receivables	18,311	-
Professional fees	19,776	15,000
Salaries and other employee benefits	111,099	123,277
	<u>181,186</u>	<u>171,315</u>
<b>9. NON-CASH INVESTING ACTIVITIES</b>		
Increase (decrease) in accounts payable related to purchase of plant and equipment	35,484	(11,516)