



WestBond Enterprises Corporation

Quarterly Report September 30, 2017

Management Discussion and Analysis

Dated November 15, 2017 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 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 six month periods ended September 30, 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 \$2,371,465 for the three months ended September 30, 2017, which is 1.8% higher than for the three months ended September 30, 2016 and 5.1% lower than for the three months ended June 30, 2017. We realized a profit of \$74,175 (\$0.002 per share) for the three months ended September 30, 2017, compared to a profit of \$97,761 (\$0.003 per share) for the same period last year. The decrease is due to higher materials and shipping costs.

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

WestBond Enterprises Corporation

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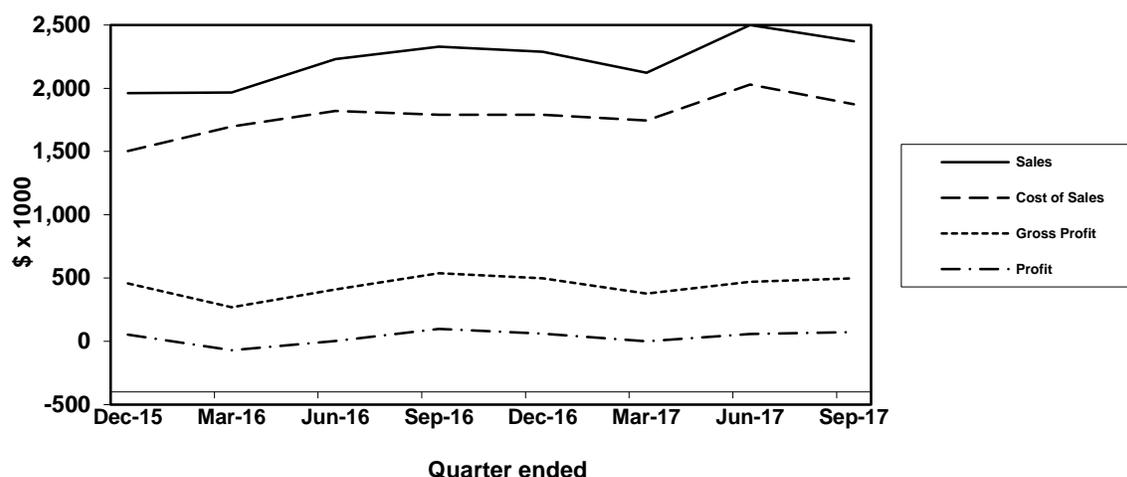
Summary of Quarterly Results

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 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
Sales	2,371	2,499	2,122	2,288	2,329	2,230	1,966	1,961
Cost of sales	1,873	2,030	1,746	1,791	1,791	1,821	1,696	1,504
Gross profit	498	469	376	497	538	409	270	457
Selling and distribution expenses	207	188	171	185	185	193	142	162
General and administrative expenses	146	164	155	170	162	166	163	153
Operating profit (loss)	145	117	50	142	191	50	(35)	142
Other expenses (income)	44	38	47	60	59	47	57	66
Profit (loss) before tax	101	79	3	82	132	3	(92)	76
Income tax expense (recovery)	27	21	2	22	35	-	(21)	22
Profit (loss)	74	58	1	60	97	3	(71)	54
Earnings (loss) per share, basic and diluted - Cdn\$	0.002	0.002	0.000	0.002	0.003	0.000	(0.002)	0.002
Sales - % change over previous quarter	-5.1	17.7	-7.2	-1.8	4.4	13.4	0.3	-1.8

Costs, expenses and net income - % of Sales

Cost of sales	79.0	81.2	82.3	78.3	76.9	81.7	86.3	76.7
Selling and distribution expenses	8.8	7.6	8.1	8.1	7.9	8.7	7.3	8.2
General and administrative expenses	6.1	6.6	7.3	7.4	7.0	7.4	8.3	7.8
Other expenses (income)	1.9	1.5	2.2	2.6	2.5	2.1	2.7	3.4
Income tax expense (recovery)	1.1	0.8	0.1	1.0	1.5	0.0	-1.1	1.1
Profit (loss)	3.1	2.3	0.0	2.6	4.2	0.1	-3.5	2.8



Sales

Sales for the three months ended September 30, 2017 were 1.8% higher than for the same period last year and 5.1% lower than the previous quarter, ended June 30, 2017. The decrease is due to an equipment breakdown which prevented us from manufacturing some of our products. The equipment has been repaired and we are now back on track with increasing sales volumes.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2017	2016		2017	2016	
	\$	\$		\$	\$	
Personal hygiene	1,078,354	1,120,930	-3.8%	2,266,250	2,126,462	6.6%
Clinical	437,280	433,834	0.8%	923,271	895,702	3.1%
Long-term care	533,514	572,554	-6.8%	1,143,558	1,168,984	-2.2%
Air laid paper	89,310	146,584	-39.1%	266,957	244,982	9.0%
Air laid napkins	127,109	28,586	344.7%	153,170	57,579	166.0%
Other	105,898	26,644	297.5%	117,137	65,354	79.2%
	2,371,465	2,329,132	1.8%	4,870,343	4,559,063	6.8%

Cost of Sales

Materials costs, as a percentage of sales, were higher in 2017 than in 2016 due to lower than standard paper yields. 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 product change machine set-up labour. Variable overhead was lower in 2017 than in 2016 from lower maintenance costs and from lower electricity and gas consumption during the equipment breakdown.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
	% of sales	% of sales	% of sales	% of sales
Materials	50.5%	46.7%	52.0%	48.5%
Production labour	8.8%	9.0%	8.3%	9.1%
Factory overhead labour	4.6%	4.6%	4.5%	4.8%
Variable overhead	2.4%	3.5%	2.9%	3.6%
Fixed overhead	5.3%	5.4%	5.2%	5.4%
Depreciation	7.4%	7.7%	7.2%	7.8%
Gross Margin	21.0%	23.1%	20.0%	20.8%

Selling Expenses

Selling expenses during the three months ended September 30, 2017 were 8.8% of sales, compared to 7.9% for the three months ended September 30, 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 lower due to staff vacations taken.

During the six months ended September 30, 2017 the company incurred total short-term employee benefits of \$179,326 (2016 – \$180,173) to its key management personnel, comprising the directors and officers of the company, and incurred \$3,913 (2016 – \$7,089) 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 \$5,508 gain in the three months ended September 30, 2017, compared with a \$15,246 gain in the same period last year. Interest expense is lower in 2017 than 2016 because of lower loan balances.

Liquidity, Financial Position and Capital Resources

Our operating cash flows were \$338,574 during the three months ended September 30, 2017, an average of \$112,858 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 \$879,385 at September 30, 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, of which \$20,550 was used at September 30, 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 0.75%. Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$300,000 and accounts payable by an additional \$300,000. We purchase our pulp and paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We also have a term loan credit facility which was used for the purchase of our binder bonded air laid paper making machine. Repayment of the loan is in monthly instalments of \$59,524 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. Interest is payable monthly at bank prime plus 1.5% per annum. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets are pledged as collateral.

We 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.

	<u>November 15, 2017</u>
Authorized common shares without par value	Unlimited
Issued common shares	33,665,800
Shares issuable on exercise of outstanding stock options	2,000,000
Shares available for future stock option grants	1,366,580

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

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.