



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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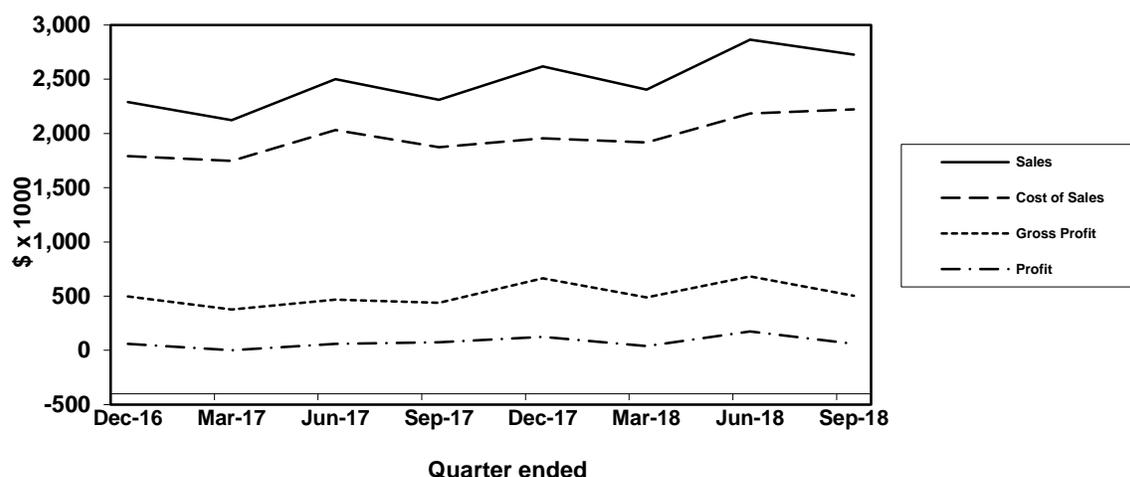
Summary of Quarterly Results

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.