



WestBond Enterprises Corporation

Management Discussion and Analysis

dated June 25, 2018, to accompany the consolidated financial statements for the year ended March 31, 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 (“WestBond” or the “Company”), are a paper manufacturer and converter that supplies disposable paper products to many market segments. We initially grew to become one of Canada’s leading manufacturers of medical disposables and later expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

Our product lines include clinical products such as examination table paper, sheets, pillowcases and gowns. The personal hygiene product line consists of hand towels and bathroom tissue in jumbo roll format as well as conventional formats. Our third major product line is patient wipes and underlays for long-term care facilities (nursing homes). We are expanding into a fourth product line, table top products, which include high quality air laid napkins.

Our goal for the personal hygiene line is to increase sales by supplying a comprehensive paper product line directly to medium sized janitorial contractors providing public washroom maintenance services and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct or to the smaller distributors, we eliminate the “middle-man” and are able to offer more competitive pricing. Also, unlike our most significant competitors, we will configure our products to customers’ specifications. Our current focus for expansion in this market is Canada and western USA. We will also pursue opportunities to supply these products directly to smaller hotel, motel and restaurant chains.

Our goal for the clinical and long-term care lines is to increase sales by continuing to provide quality products at competitive prices. Our focus for the clinical line is Canada. Long-term care products are sold in Canada and the USA.

We sell a full range of air laid napkins (table top) to major food service distributors in Canada and the United States. Sales of these high quality air laid products are expanding quickly.

Our plant equipment enables us to provide a comprehensive range of products for each of our product lines and allows us to utilize a wide variety of paper supplies, enabling us to take advantage of good raw material pricing opportunities. We also have equipment that will allow us to produce facial tissue and other air laid products. This tissue line will be brought into production during the 2019 fiscal year.

We started production on our binder bonded air laid paper making machine in August 2015. The machine can produce air laid paper at a significantly lower cost than current purchase prices. We use 25% - 30% of the production capacity of the machine for our own finished products and intend to sell production from surplus capacity to other paper converters.

Personal Hygiene Products – WestBond started this product line during 2002. Our decision to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing medical distributors who wanted to increase their purchasing ability with us. We evaluated this potential and determined that the medical industry had a high demand for these types of products. In addition, we

soon learned that small to medium size distributors who sell to the janitorial market were not being serviced well by other paper converters.

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a specialty line of roll towels and bathroom tissue. This specialty line provides us with high margin products that few converters are able to produce. We manufacture our products in 1 and 2 ply formats. Recently, we introduced a premium line of air laid roll towels to the market. We sell these products to Canadian and US distributors and janitorial contractors in large order quantities.

Clinical Products – Historically, this product line represented the Company’s core business. Basically, all paper products that are used by clinics, physicians, chiropractors and physiotherapists form this product category. The equipment that was originally installed to manufacture these paper products is very flexible, reliable and high speed. This allows us to develop new products that could be in demand in the future.

Products in this group are sheets, examination table paper, pillowcases, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

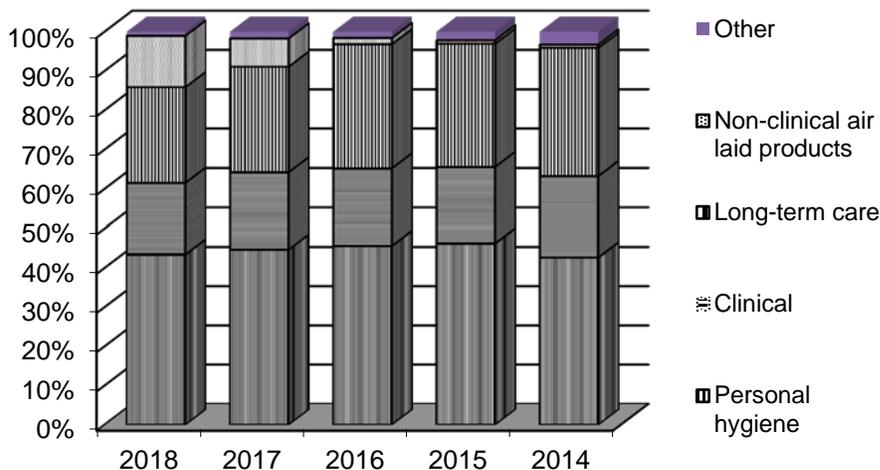
Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes and underlays. All products are made with high quality air laid paper which results in soft absorbent wipes which are used as disposable wash cloths and perineal wipes.

Products are available in 1/4 fold, 1/8 fold, and roll formats, in a variety of widths and perforation lengths. The long-term care market is growing and we continue to develop new products for major Canadian and US distributors.

Table Top Products – This is a new product line for us and includes high quality air laid napkins. These napkins replace costly linen napkins and also out-perform conventional paper napkins, reducing operating costs of many restaurants. These products are sold through major food service distributors. The addition of our own air laid paper making machine is allowing us to grow this business substantially.

These four product groups represent WestBond’s ability to adapt to market demands and develop product lines to satisfy these markets.

The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2014 through 2018. Table top product sales are included with “Non-clinical air laid products” in the chart.

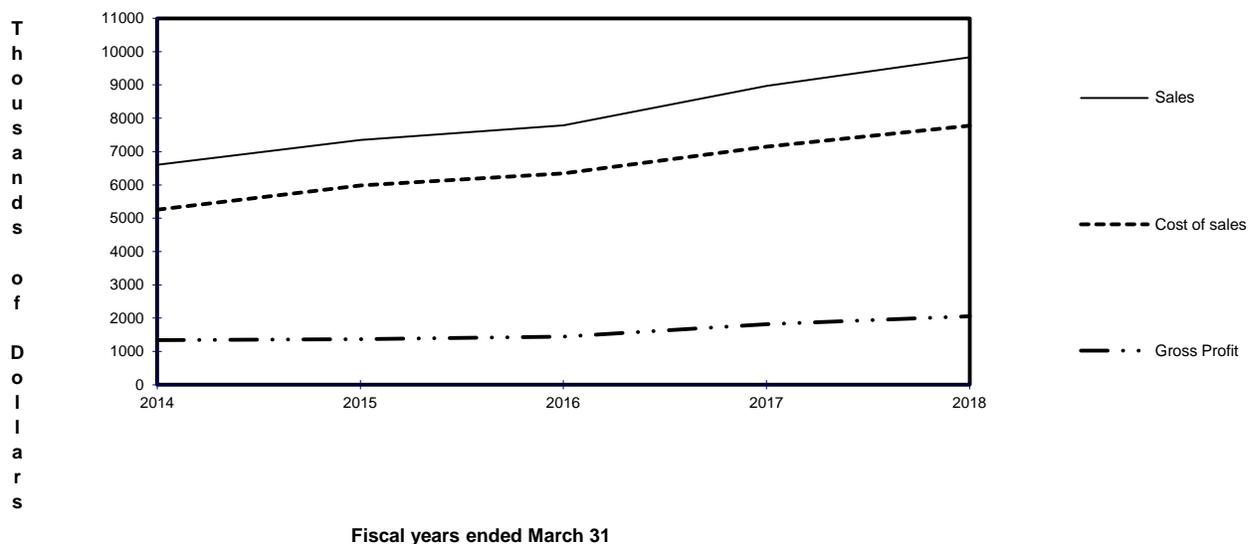


Discussion of Operations and Financial Condition

You should refer to 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.

We realized a profit of \$298,088 during the year ended March 31, 2018, compared to \$161,080 for the year ended March 31, 2017, an increase of 85%, and \$52,878 for the year ended March 31, 2016. Our gross profit margin realized during 2018 was 20.9% compared to 20.3% for 2017 and 18.6% for 2016. Our gross profit margins improved due to the air laid paper machine going into production, which reduced raw materials costs by more than the added overhead and depreciation attributable to the machine. Sales volume growth is the result of the introduction of table top and other non-clinical air laid products, and weakened competition from US and Chinese products. The higher value of the US dollar makes their product more expensive in Canada, which has improved our sales. Additionally, our sales into the US market, which are priced in US dollars, result in higher Canadian dollar margins.

Sales, Cost of Sales and Gross Profit



Selected Annual Information (Unaudited)

We have summarized selected financial information from the Company's consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS).

Operating Results	Years ended March 31,					
	2018		2017		2016	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	9,829,025	100.0	8,969,371	100.0	7,788,049	100.0
Cost of sales	7,772,815	79.1	7,148,766	79.7	6,343,668	81.5
Gross profit	2,056,210	20.9	1,820,605	20.3	1,444,381	18.5
Selling and distribution expenses	827,880	8.4	733,538	8.2	607,098	7.8
General and administrative expenses	657,658	6.7	652,908	7.3	635,894	8.2
Other expenses	120,968	1.3	212,926	2.3	135,335	1.7
Profit before tax	449,704	4.5	221,233	2.5	66,054	0.8
Income tax expense	151,616	1.5	60,153	0.7	13,176	0.1
Profit and comprehensive income	298,088	3.0	161,080	1.8	52,878	0.7
(Loss) earnings per share, basic and diluted	0.009		0.005		0.002	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2018	2017	2016
	\$	\$	\$
Non-Current Assets	8,191,705	8,758,310	9,236,537
Current Assets	2,568,204	2,242,687	2,184,489
Total assets	10,759,909	11,000,997	11,421,026
Non-Current Liabilities	4,093,930	4,609,569	5,231,669
Current liabilities	1,496,737	1,520,274	1,479,283
Shareholders' equity	5,169,242	4,871,154	4,710,074

Sales

Sales were \$9,829,025 for the year ended March 31, 2018, a 9.6% increase over the year ended March 31, 2017. The table below summarizes the sales of the Company for the last five fiscal years.

	2018	2017	2016	2015	2014
	\$	\$	\$	\$	\$
Personal hygiene products	4,266,950	4,010,549	3,550,791	3,396,874	2,815,772
Clinical products	1,784,060	1,752,542	1,531,332	1,425,965	1,361,185
Long-term care products	2,392,582	2,408,946	2,458,934	2,303,404	2,152,750
Non-clinical air laid products	1,283,943	644,409	125,460	65,298	54,373
Other products	101,490	152,925	121,532	157,875	215,360
Total sales	9,829,025	8,969,371	7,788,049	7,349,416	6,599,440
Change over previous year	9.6%	15.2%	6.0%	11.4%	4.3%

Sales increased primarily in the personal hygiene and non-clinical air laid products. Clinical and long-term care products remained relatively flat. The increase in the personal hygiene products was caused mainly by strong demand and weaker competition from the United States due to high US dollar exchange rates. The clinical and long-term care markets continue to be strong due to the aging population. Approximately 35% of our sales in 2018 and 2017 were priced in US dollars, compared with 33% for 2016

and 34% for 2015, mainly in the personal hygiene and long-term care products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar.

Cost of Sales

The following table shows the components of cost of sales over the last five years.

	2018		2017		2016		2015		2014	
	\$	% sales								
Materials	4,941,399	50.3	4,320,428	48.2	3,988,802	51.2	4,182,552	56.9	3,592,517	54.4
Production labour	868,011	8.8	832,463	9.3	769,251	9.9	588,880	8.0	493,246	7.5
Factory overhead										
labour	433,100	4.4	445,605	5.0	351,201	4.5	281,780	3.8	252,405	3.8
Variable overhead	322,600	3.3	332,179	3.7	267,470	3.4	210,670	2.8	142,759	2.2
Fixed overhead	514,913	5.2	503,010	5.6	494,160	6.3	385,463	5.2	452,187	6.9
Depreciation	692,792	7.1	715,081	7.9	472,784	6.1	332,194	4.5	323,694	4.9
Total cost of sales	7,772,815	79.1	7,148,766	79.7	6,343,668	81.4	5,981,539	81.4	5,256,808	79.7

Our cost of sales structure is changing as a result of bringing our air laid paper machine into production. Materials costs are lower and labour, overhead and depreciation are higher. The change commenced mid-way during the 2016 fiscal year. The net effect is a higher gross margin as production from the machine increases.

Materials are the most significant component of cost of sales. Bulk paper and pulp are our main materials cost. All of our products have a high materials component and a low labour component.

Unfavourable paper yields, the amount of product that a certain weight of paper produces, increased materials costs by a factor of 2.7% of sales in 2018 and 2.5% in 2017 and 1.6% in 2016 and 2015. During part of the 2018 fiscal year 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.

Paper prices were relatively stable in our 2017 and 2013 fiscal years and increased during the 2018, 2016, 2015 and 2014 fiscal years, after having increased every year since 2006. Paper prices can be volatile, additionally, our paper and pulp purchases are denominated in US dollars, which can fluctuate significantly. Our prices to our customers have been set to allow for paper cost increases of up to 10%.

Production labour in cost of sales averaged 8.8% of sales during 2018 compared to 9.3% during 2017, 9.9% during 2016 and 8.0% in 2015. The decrease in 2018 and 2017 is from improved operating efficiencies. The increase in 2016 is due to higher wage rates and to additional employees hired to operate the air laid paper machine. The labour market near our factory has been tight during the last few years and it has taken extra time to find and train new machine operators. If we are unable to hire sufficient machine operators, it will be difficult to produce additional products for sale.

Factory overhead labour decreased as a percentage of sales during 2018 due to increased sales volumes after increasing in 2017 and 2016 to support the new air laid paper machine. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2018 was lower than 2017 from lower maintenance costs. Variable overhead incurred in 2017 and 2016 is higher than previous years due to increased electricity and gas to operate the air laid paper machine.

Fixed overhead in 2018 includes \$10,418 in higher rent and \$1,485 in higher insurance premiums over the expense in 2017. Fixed overhead in 2017 includes \$12,456 in higher insurance premiums to cover the air laid paper machine, over the expense in 2016 and a \$3,607 refund of overbilled lease operating expenses. Fixed overhead in 2016 includes \$99,692 in higher rent and \$9,005 in higher insurance premiums to cover the air laid paper machine, over the expense in 2015. Rent was \$66,724 lower during 2015 than 2014 because we terminated the lease on our warehouse at the end of June 2014 and we received a refund for lease operating expenses at our previous factory that had been overcharged (lease operating expenses are billed monthly at estimated costs for the year and adjusted annually to reflect actual costs). Increases in depreciation expense are the result of bringing new equipment into use. The slight decrease in 2018 is due to revised estimates of the useful lives of some of the equipment.

Selling Expenses

Selling expenses, as a percentage of sales, are higher in 2018 than in 2017 due to increased shipping costs, additional commissions related to the increase in non-clinical air laid product sales and development costs for a new web-site.

General and Administrative Expenses

Administration and office costs were lower in 2018 than in 2017 due to \$29,031 in lower bank and credit card processing fees which were offset by \$8,761 in bad debt expense, \$7,005 in higher office equipment maintenance costs. Professional fees and salaries increased due to higher fees and rates of pay.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Recent general economic conditions may cause some of our customers to be less creditworthy. We regularly monitor our receivables aging and discuss overdue accounts with senior-level customer personnel to encourage more prompt payment and to evaluate future creditworthiness. At March 31, 2018, trade and other receivables include \$57,395 that is more than 30 days past due and against which we have made no allowance for loss. We believe that we will eventually receive full payment of these amounts. During 2018 we had \$8,761 in bad debt losses compared to no bad debt losses for 2017.

During the year ended March 31, 2018, professional fees include \$7,370 paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, one of our directors, is a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties. During the year ended March 31, 2018, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$376,414 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$349,789 of the compensation is included in general and administrative salaries and employee benefits, \$21,870 is included in administration and office and \$4,755 is included in other selling and distribution expenses.

Other Income and Expenses

We are exposed to fluctuations in the US/Cdn dollar exchange rates as portions of our cash, trade and other receivables and trade and other payables are denominated in US dollars. While the amounts of exposure change on a daily basis, we generally have more US dollar liabilities than US dollar financial assets. Over the past year, our exposure ranged from US\$100,424 net assets to US\$247,496 net liabilities and averaged US\$91,991 net liabilities (calculated on a monthly basis) and at March 31, 2018 net assets were US\$100,424. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.29 to Cdn\$1.30) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn\$1,004 on an exposure of US\$100,424. During the year ended March 31, 2018 we realized foreign exchange gain of \$4,059 compared to losses of \$5,674 in 2017. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

We lost some sales opportunities when one of our production machines broke down for a period during the year ended March 31, 2018. Business interruption insurance covered the estimated \$69,363 in gross profit lost due to the break-down.

Interest on our revolving bank loan and term bank loan fluctuates with the prime rate of interest. We entered into an interest rate swap during the year ended March 31, 2018 that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap caused us to reflect an unrealized loss of \$14,495 at March 31, 2018. Fair value losses or gains will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Income tax expense is high during the year ended March 31, 2018 from a one-time charge of \$26,743 to adjust the deferred tax balances to the higher British Columbia income tax rate enacted during the period.

Liquidity and Capital Resources

Our operating cash flows were \$1,386,150 during the year ended March 31, 2018, an average of \$115,513 per month, compared to \$100,059 per month during 2017, before accounting for fluctuations in

non-cash working capital. At March 31, 2018, we had cash of \$402,293 and working capital of \$1,071,467 compared to cash of \$124,677 and working capital of \$722,413 at March 31, 2017. The increase is due to improved operating cash flows.

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 re-pay term bank loans.

We have a revolving bank loan facility of \$1,500,000, none of which was used at March 31, 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. Substantially all of our 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 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 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 commencing September 22, 2016 with a final payment of the \$4,345,236 balance of principal on August 22, 2019. 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 our assets are pledged as collateral.

We have covenanted with the bank to maintain our consolidated ratio of current assets to current liabilities at 1.20:1 or higher, our consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and our consolidated ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:1 or higher. We are in compliance with all of these covenants at March 31, 2018 and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with these covenants, and are unable to obtain a waiver from the bank, the loan will become payable on demand.

We intend to spend around \$200,000 for production equipment additions and improvements 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 its 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 will not have a material impact on our consolidated financial statements. .

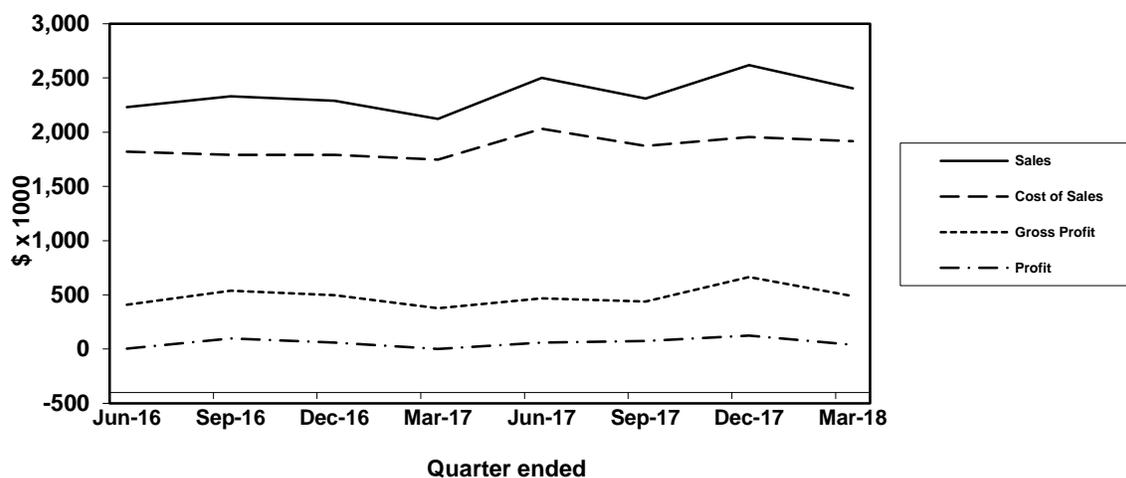
Summary of Quarterly Results (Unaudited)

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							
	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
Sales	2,403	2,617	2,310	2,499	2,122	2,288	2,329	2,230
Cost of sales	1,916	1,954	1,873	2,030	1,746	1,791	1,791	1,821
Gross profit	487	663	437	469	376	497	538	409
Selling and distribution expenses	200	232	207	188	171	185	185	193
General and administrative expenses	174	174	146	164	155	170	162	166
Operating profit	113	257	84	117	50	142	191	50
Other expenses (income)	51	50	(17)	38	47	60	59	47
Profit before tax	62	207	101	79	3	82	132	3
Income tax expense	21	82	27	21	2	22	35	-
Profit	41	125	74	58	1	60	97	3
Earnings (loss) per share, basic and diluted - Cdn\$	0.001	0.004	0.002	0.002	0.000	0.002	0.003	0.000
Sales - % change over previous quarter	-8.2	13.3	-7.6	17.7	-7.2	-1.8	4.4	13.4

Costs, expenses and net income - % of Sales

Cost of sales	79.7	74.7	81.1	81.2	82.3	78.3	76.9	81.7
Selling and distribution expenses	8.3	8.9	9.0	7.6	8.1	8.1	7.9	8.7
General and administrative expenses	7.2	6.7	6.3	6.6	7.3	7.4	7.0	7.4
Other expenses (income)	2.2	1.9	-0.8	1.5	2.2	2.6	2.5	2.1
Income tax expense	0.9	3.1	1.2	0.8	0.1	1.0	1.5	0.0
Profit	1.7	4.7	3.2	2.3	0.0	2.6	4.2	0.1



The fluctuations in sales are, for the most part, due to changes in volume. Sales are also affected by the value of the US dollar as approximately 35% of our sales are priced in US dollars. Sales were 8.2% lower in the quarter ended March 31, 2018 than in the previous quarter, ended December 31, 2017, and 13.2% higher than in the quarter ended March 31, 2017.

Slight variations in cost of sales, as a percentage of sales, occur on a regular basis. These are caused by fluctuations in the product mix, production efficiencies and prices for raw materials. The decrease in cost of sales, as a percentage of sales, during the quarter ended March 31, 2018 over March 31, 2017 is due to overhead expenses increasing at a lower rate than sales volumes.

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>June 25, 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.