



WestBond Enterprises Corporation

Quarterly Report September 30, 2019

Management Discussion and Analysis

Dated November 21, 2019 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 2019

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 2019 Annual Report. A pdf version of the 2019 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, 2019 and our consolidated financial statements for the year ended March 31, 2019 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 2019 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 20, 2019, the date of the Management Discussion and Analysis in the 2019 Annual Report, is not repeated here.

Sales were \$3,007,023 for the three months ended September 30, 2019, which is 10.3% higher than for the three months ended September 30, 2018 and 9.5% higher than for the three months ended June 30, 2019. We realized a profit of \$136,909 (\$0.004 per share) for the three months ended September 30, 2019, compared to a profit of \$61,134 (\$0.002 per share) for the same period last year. The increase in both sales and profit is due to expanding sales of non-clinical air laid products.

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

WestBond Enterprises Corporation

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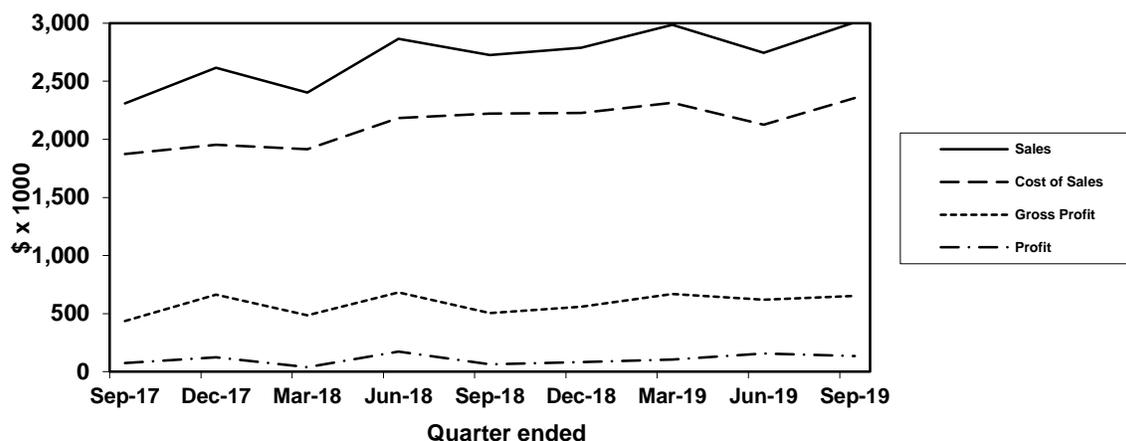
Summary of Quarterly Results

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 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017
Sales	3,007	2,746	2,985	2,788	2,726	2,865	2,403	2,617
Cost of sales	2,354	2,128	2,317	2,228	2,223	2,183	1,916	1,954
Gross profit	653	618	668	560	503	682	487	663
Selling and distribution expenses	233	216	220	224	207	245	200	232
General and administrative expenses	178	171	253	168	170	172	174	174
Operating profit	242	231	195	168	126	265	113	257
Other expenses (income)	56	59	43	55	39	30	51	50
Profit before tax	186	172	152	113	87	235	62	207
Income tax expense	49	48	48	31	26	62	21	82
Profit	137	124	104	82	61	173	41	125
Earnings per share, basic and diluted - Cdn\$	0.004	0.004	0.003	0.002	0.002	0.005	0.001	0.004
Dividends paid per share - Cdn\$	0.0025	0.0025	0.0025	0.0025	0.0025	0.0000	0.000	0.0000
Sales - % change over previous quarter	9.5	-8.0	7.1	2.3	-4.9	19.2	-8.2	13.3

Costs, expenses and net income - % of Sales

Cost of sales	78.3	77.5	77.6	79.9	81.5	76.2	79.7	74.7
Selling and distribution expenses	7.7	7.9	7.4	8.1	7.6	8.5	8.3	8.9
General and administrative expenses	5.9	6.2	8.5	6.0	6.3	6.0	7.2	6.7
Other expenses (income)	1.9	2.1	1.4	2.0	1.4	1.1	2.2	1.9
Income tax expense	1.6	1.8	1.6	1.1	1.0	2.2	0.9	3.1
Profit	4.6	4.5	3.5	2.9	2.2	6.0	1.7	4.7



Sales

Sales for the three months ended September 30, 2019 were 10.3% higher than for the same period last year and 9.5% higher than the previous quarter, ended June 30, 2019. The decrease in personal hygiene product sales is due to a shortage of paper supply in the North American market. We have sourced more reliable paper suppliers overseas and we are now back to normal sales levels. The increase in clinical products is due to the addition of a new customer. The decrease in sales of long-term care products is due to the loss of a significant customer last year, although we are now seeing sales increases to other customers. The increase in non-clinical air laid products is due to rapidly expanding sales volumes.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2019	2018		2019	2018	
	\$	\$	year	\$	\$	year
Personal hygiene	979,457	1,079,913	-9.3%	1,949,291	2,165,322	-10.0%
Clinical	470,497	419,124	12.3%	923,599	847,615	9.0%
Long-term care	500,760	422,402	18.6%	954,967	1,122,347	-14.9%
Non-clinical air laid	1,046,526	803,587	30.2%	1,902,999	1,446,187	31.6%
Other	9,783	645	-	22,211	8,940	-
	<u>3,007,023</u>	<u>2,725,671</u>	<u>10.3%</u>	<u>5,753,067</u>	<u>5,590,411</u>	<u>2.9%</u>

Cost of Sales

Materials costs, as a percentage of sales, were relatively high during the three months ended September 30, 2019 due to high paper prices and low paper yields. Production labour was lower in the three months ended September 30, 2019 than in 2018 due to the product mix and more efficient production runs. Fixed overhead is lower in 2019 than in 2018 because of the new accounting policy for leases. The factory rent has been reduced and replaced with depreciation of a right-of-use asset.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
	% of sales	% of sales	% of sales	% of sales
Materials	53.7%	53.7%	51.2%	52.3%
Production labour	7.8%	8.6%	8.7%	8.3%
Factory overhead labour	3.5%	4.3%	3.8%	4.1%
Variable overhead	3.7%	3.8%	4.3%	3.5%
Fixed overhead	1.9%	4.8%	1.8%	4.6%
Depreciation of plant equipment	5.6%	6.3%	5.8%	6.0%
Depreciation of right-of-use assets	2.1%	-	2.3%	-
Gross Profit	<u>21.7%</u>	<u>18.5%</u>	<u>22.1%</u>	<u>21.2%</u>

Selling and Distribution Expenses

Selling and distribution expenses during the three months ended September 30, 2019 were 7.7% of sales, compared to 7.6% for the three months ended September 30, 2018. The expenses have decreased from a historical 8% to 9% range 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

Administrative and office expenses were lower in the three and six months ended September 30, 2019 than in 2018 from the reduction in office rent expense under the new lease accounting policy of \$1,982 per month. Depreciation of right-of-use assets under the new lease accounting policy offset these reductions by \$1,574 per month. Salary and other employee benefits increased due to the addition of staff and to higher pay rates for salaries and employee benefits.

During the six months ended September 30, 2019 the company incurred total short-term employee benefits of \$192,590 (2018 – \$200,585) to its key management personnel, comprising the directors and officers of the company, and incurred \$5,883 (2018 – \$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 \$4,270 loss in the three months ended September 30, 2019, compared with a \$3,366 gain in the same period last year. Interest expense on bank loans is lower in 2019 than 2018 because of lower loan balances. Interest expense on lease liabilities under the new accounting policy was \$31,776 for the three months ended September 30, 2019. We recognized an unrealized gain of \$8,355 to reflect the market value fluctuation of our interest rate swap during the three months ended September 30, 2019.

Liquidity, Financial Position and Capital Resources

Our operating cash flows were \$954,067 during the six months ended September 30, 2019, an average of \$159,011 per month, compared to an average of \$121,838 per month during the year ended March 31, 2019, before accounting for fluctuations in non-cash working capital. We had working capital of \$786,010 at September 30, 2019, compared to \$913,361 at April 1, 2019. The change is due to the improved operating cash flows, offset by dividends, term loan payments and equipment purchases.

We paid quarterly dividends of \$0.0025 per share on June 20, 2019 and September 20, 2019. The next quarterly dividend of \$0.0025 per share will be paid on December 20, 2019 to shareholders of record on December 5, 2019. We plan to re-invest the rest of our surplus cash flow in new equipment to continue to expand our product lines and improve efficiency and to pay off bank debt.

We have a revolving bank loan facility of \$1,500,000. 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 our assets are pledged as collateral for the revolving bank loan facility. No loans were outstanding at September 30, 2019.

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 (which was extended from August 22, 2020 during the nine months ended September 30, 2019). 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, 2019 we had an unrealized loss of \$30,699 on the interest rate swaps.

We intend to spend around \$200,000 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.

We adopted this standard as of our opening statement of financial position for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result we recognized a right-of-use asset and a lease liability for our lease of premises and made the adjustments described in note 3 of the financial statements. The lease liability recorded is the present value of the remaining lease payments discounted using our incremental borrowing rate at April 1, 2019 of 4.45%.

We elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value as the amounts are insignificant. We elected the option to apply this standard retrospectively without restatement of prior periods. The calculations to re-state the prior periods back to the inception date of the lease would be more onerous than useful.

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 21, 2019</u>
Authorized common shares without par value	Unlimited
Issued common shares	33,815,800
Shares issuable on exercise of outstanding stock options	1,700,000
Shares available for future stock option grants	1,681,580

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.