



WestBond Enterprises Corporation

Consolidated Financial Statements

Years ended March 31, 2019 and 2018

WestBond Enterprises Corporation

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Independent auditor's report

To the Shareholders of WestBond Enterprises Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation and its subsidiary (together, the Company) as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2019 and 2018;
 - the consolidated statements of comprehensive income for the years then ended;
 - the consolidated statements of changes in equity for the years then ended;
 - the consolidated statements of cash flows for the years then ended; and
 - the notes to the consolidated financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

(Signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 20, 2019

WestBond Enterprises Corporation
Consolidated Statements of Financial Position
(Canadian Dollars)

| | Notes | March 31 2019 \$ | March 31 2018 \$ |
|---|-------|------------------------|------------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Plant and equipment | 5 | 7,818,316 | 8,168,099 |
| Lease deposits | | 18,012 | 18,012 |
| Deferred tax asset | 8 | 9,566 | 5,594 |
| | | 7,845,894 | 8,191,705 |
| Current Assets | | | |
| Inventory | 6 | 1,244,081 | 991,503 |
| Trade and other receivables | | 1,313,774 | 1,117,994 |
| Prepaid expenses | | 57,604 | 56,414 |
| Cash and cash equivalents | | 474,030 | 402,293 |
| | | 3,089,489 | 2,568,204 |
| Total Assets | | 10,935,383 | 10,759,909 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Common shares issued and outstanding | 7 | 3,903,940 | 3,883,225 |
| Stock options | 7 | 81,770 | 88,985 |
| Contributed surplus | | 294,089 | 294,089 |
| Retained earnings | 7 | 1,071,338 | 902,943 |
| Equity attributable to common shareholders | | 5,351,137 | 5,169,242 |
| Liabilities | | | |
| Non-Current Liabilities | | | |
| Term bank loans | 10 | 2,440,468 | 3,154,756 |
| Unrealized loss on interest rate swap | 10 | 34,480 | 14,495 |
| Deferred operating lease liability | | 195,235 | 163,693 |
| Deferred tax liability | 8 | 931,962 | 760,986 |
| | | 3,602,145 | 4,093,930 |
| Current Liabilities | | | |
| Term bank loans | 10 | 714,288 | 714,288 |
| Trade and other payables | 11 | 1,267,813 | 782,449 |
| | | 1,982,101 | 1,496,737 |
| Total Liabilities | | 5,584,246 | 5,590,667 |
| Total Equity and Liabilities | | 10,935,383 | 10,759,909 |
| Commitments | 18 | | |

APPROVED BY THE BOARD OF DIRECTORS

(signed) "Gennaro Magistrale"

(signed) "Owen Granger"

Director

Director

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

WestBond Enterprises Corporation
Consolidated Statements of Comprehensive Income
(Canadian Dollars)

| | Notes | <u>Years ended March 31</u> | |
|--|-------|-----------------------------|-------------------|
| | | <u>2019</u> | <u>2018</u> |
| | | \$ | \$ |
| Sales | 12 | 11,363,162 | 9,829,025 |
| Cost of sales | 13 | <u>8,949,336</u> | <u>7,772,815</u> |
| Gross Profit | | 2,413,826 | 2,056,210 |
| Selling and distribution expenses | 14 | 896,493 | 827,880 |
| General and administrative expenses | 15 | <u>763,499</u> | <u>657,658</u> |
| Operating Profit | | 753,834 | 570,672 |
| Foreign exchange loss (gain) | | 8,737 | (4,059) |
| Proceeds from business interruption insurance claim | | - | (69,363) |
| Interest expense | | 136,844 | 179,895 |
| Unrealized loss on interest rate swap | | <u>19,985</u> | <u>14,495</u> |
| Profit Before Tax | | 588,268 | 449,704 |
| Income tax expense | 8 | <u>167,004</u> | <u>151,616</u> |
| Profit and Comprehensive Income | | <u>421,264</u> | <u>298,088</u> |
| Weighted average shares outstanding | | <u>33,692,923</u> | <u>33,665,800</u> |
| Earnings per share, basic | | <u>0.013</u> | <u>0.009</u> |
| Dilutive effect of stock options outstanding | | 637,500 | 133,505 |
| Fully diluted weighted average shares outstanding | | <u>34,330,423</u> | <u>33,799,305</u> |
| Earnings per share, fully diluted | | <u>0.012</u> | <u>0.009</u> |

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

WestBond Enterprises Corporation
Consolidated Statements of Changes in Equity
(Canadian Dollars)

| | Common Shares | Stock Options | Contributed Surplus | Retained Earnings | Total |
|--|------------------|------------------|------------------------|----------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance as at March 31, 2017 | 3,883,225 | 96,200 | 286,874 | 604,855 | 4,871,154 |
| Forfeiture of stock option | - | (7,215) | 7,215 | - | - |
| Profit for the year | - | - | - | 298,088 | 298,088 |
| Balance as at March 31, 2018 | 3,883,225 | 88,985 | 294,089 | 902,943 | 5,169,242 |
| Exercise of stock option | 20,715 | (7,215) | - | - | 13,500 |
| Dividends paid, \$0.075 per share | - | - | - | (252,869) | (252,869) |
| Profit for the year | - | - | - | 421,264 | 421,264 |
| Balance as at March 31, 2019 | <u>3,903,940</u> | <u>81,770</u> | <u>294,089</u> | <u>1,071,338</u> | <u>5,351,137</u> |

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

WestBond Enterprises Corporation
Consolidated Statements of Cash Flows
(Canadian Dollars)

| | Notes | Years ended March 31 | |
|---|-------|----------------------|------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Operating Activities | | | |
| Profit | | 421,264 | 298,088 |
| Adjustments to reconcile profit to cash flows from operating activities | | | |
| - depreciation | | 685,415 | 705,707 |
| - deferred operating lease liability | | 31,542 | 31,542 |
| - unrealized loss on interest rate swap | | 19,985 | 14,495 |
| - interest expense | | 136,844 | 179,895 |
| - income tax expense | | 167,004 | 151,616 |
| - income tax refunded | | - | 4,807 |
| Cash flows from operating activities before changes in non-cash working capital | | 1,462,054 | 1,386,150 |
| Decrease (increase) in | | | |
| - inventory | | (252,578) | 188,649 |
| - trade and other receivables | | (195,780) | (226,889) |
| - prepaid expenses | | (1,190) | (14,716) |
| Increase (decrease) in | | | |
| - trade and other payables | | 511,286 | (38,805) |
| Net Cash Flows from Operating Activities | | 1,523,792 | 1,294,389 |
| Investing Activities | | | |
| Purchase of plant and equipment | 16 | (361,554) | (116,719) |
| Financing Activities | | | |
| Repayment of term bank loans | | (714,288) | (714,288) |
| Interest paid | | (136,844) | (185,766) |
| Exercise of stock options | | 13,500 | - |
| Dividends paid | | (252,869) | - |
| Net Cash Flows used in Financing Activities | | (1,090,501) | (900,054) |
| Net Increase in Cash and Cash Equivalents | | 71,737 | 277,616 |
| Cash and Cash Equivalents at the Beginning of the Year | | 402,293 | 124,677 |
| Cash and Cash Equivalents at the End of the Year | | 474,030 | 402,293 |

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

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

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 7403 Progress Way, Unit 101, Delta, British Columbia.

The consolidated financial statements of the company for the year ended March 31, 2019 were authorized for issue by resolution of the directors on June 20, 2019.

2. BASIS OF PREPARATION

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Consolidation

These consolidated financial statements consolidate the accounts of WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Functional and Presentation Currency and Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the company operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the consolidated statements of comprehensive income.

Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of comprehensive income during the period in which they are incurred.

Depreciation is charged to profit using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

| | |
|------------------------|------------------|
| Factory equipment | - 1 to 25 years |
| Leasehold improvements | - 15 to 25 years |
| Office equipment | - 3 to 15 years |

The company allocates the cost initially recognized in respect of an item of plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

and useful lives of the plant and equipment are reviewed annually and adjusted if appropriate. Depreciation is not charged on assets until they are available for use in the location and condition necessary to be capable of operating in the manner intended by management.

Plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit or CGU). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. When events or circumstances warrant, impairment losses are evaluated for potential reversals.

Inventory

Inventory is measured at the lower of cost and net realizable value. Raw materials inventory costs include all costs incurred to bring the materials to their current state and location, including the purchase price, duties, non-refundable taxes and freight. Finished goods inventory includes, in addition to the cost of the raw materials incorporated into their manufacture, the costs of labour incurred directly in their manufacture and an allocation of indirect variable overhead, fixed overhead and depreciation on plant and equipment. Costs are assigned to inventory on a first-in, first-out basis. Overhead related to raw materials manufactured by the company is allocated to the cost of those raw materials based on the practical capacity of the manufacturing plant. The allocation of the remaining overhead is based on the proportionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) **Financial Assets at Amortized Cost:** Financial assets are initially measured at fair value and classified as subsequently measured at amortized cost or fair value on the basis of the business model for managing the financial asset and the contractual cash flow characteristics of the financial assets. A financial asset is subsequently measured at amortized cost only if it is held in a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The company's trade and other receivables are in this category and are subsequently measured at amortized cost using the effective interest method less a provision for impairment. Gains or losses on financial assets in this category are recognized in profit or loss when the financial asset is derecognized, impaired or reclassified.
- (ii) **Financial Assets at Fair Value:** Financial assets not meeting the criteria for subsequent measurement at amortized cost are initially and subsequently measured at fair value. The company's cash and cash equivalents are in this category. Gains or losses arising from changes

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

in fair value are recognized in profit or loss unless the financial asset is an equity instrument that is not held for trading and the company has made an irrevocable election at initial recognition to present subsequent changes in its fair value in other comprehensive income.

- (iii) **Financial Liabilities at Amortized Cost:** Financial liabilities at amortized cost include trade and other payables and loans. Trade and other payables are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Subsequently, payables are measured at amortized cost using the effective interest method. Loans are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.
- (iv) **Financial Liabilities at Fair Value through Profit or Loss:** A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The company's interest rate swap contract is classified in this category.

Financial liabilities in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of comprehensive income. Gains and losses arising from changes in fair value are presented in the consolidated statements of comprehensive income within other gains and losses in the period in which they arise.

Impairment of financial assets

At each reporting date the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss. The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days of deposit.

Stock-Based Compensation Plan

The company has a stock-based compensation plan that permits the directors of the company to grant incentive stock options to its employees, directors and consultants. At the directors' discretion, stock options may vest in blocks over a designated period of time. Each vesting block in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each block is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense for options granted to employees and directors, or the cost of goods or services acquired in exchange for options granted to non-employees, is recognized over each block's vesting period by reflecting a contribution to shareholders' equity based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable or refundable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Revenue

The company sells goods that it has manufactured to its customers based on contracts comprising a purchase order from the customer and an order confirmation sent to the customer that sets the prices for the goods ordered. Revenue from contracts with customers is recognized when the goods are shipped, which is when control of the products transfers to the customer and the company has no remaining performance obligations, provided it is probable that the company will collect the selling price for the goods.

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of stock options and warrants and that the assumed proceeds are used to purchase common shares at the average market price during the period. The excess, if any, over the number of shares assumed issued and the number of shares assumed purchased is added to the basic weighted average number of shares outstanding to determine the diluted number of common shares outstanding. If the average market price during the period is less than the exercise price of the stock options or warrants, no dilution will occur.

Leased Premises

The company conducts its operations from leased premises. Rent expense is recorded on a straight-line basis over the term of the lease beginning on the possession date. Accordingly, reasonably assured rent escalations are amortized over the lease term, and free-rent periods are allocated to a portion of rent expense. The difference between the recognized rental expense and the total rental payments is reflected on the consolidated statements of financial position as a deferred operating lease liability.

Lease inducements, including cash and the reimbursement of costs incurred by the company for leasehold improvements, are deferred and accounted for as a reduction of rent expense over the term of the related lease on a straight-line basis.

Other operating payments associated with leased premises are recorded in the period in which the expenses occur.

Judgments and Estimates

The preparation of consolidated financial statements requires the company's management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and the disclosures in the notes to the consolidated financial statements. Actual results may differ from these estimates. Significant judgments and estimates are made in the determination of the net realizable value of inventories and the useful lives of plant and equipment.

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

The company adjusts inventory values so that the carrying value does not exceed the net realizable value. This requires the use of estimates of the inventory that will be sold, the prices at which it will be sold, and an assessment of expected orders from customers. The estimates also reflect changes in products and changes in demand due to obsolescence and competition.

The company bases the amount of depreciation charged against plant and equipment on estimates of the expected useful life of each component of plant and equipment. The estimates consider normal wear and tear, obsolescence and continued usefulness to the company.

New and Revised Accounting Standards

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 company adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption did not have any significant impact on the company's consolidated financial statements, other than the disclosure of additional information.

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 the entity's 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 an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company adopted this standard on April 1, 2018 retrospectively to the prior year presented. The adoption did not have a material impact on the consolidated financial statements or to the measurement categories or carrying amounts of its financial instruments.

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.

The company will adopt this standard as of its opening statement of financial for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result it will recognize a right-to-use asset and a lease liability for its lease of premises (note 18) and make the adjustments described in the following table. The lease liability to be recorded is the present value of the remaining lease payments discounted using the company's incremental borrowing rate at April 1, 2019 of 4.45%. The company will elect not to apply the standard to short-term leases and leases for which the underlying asset is of low value.

WestBond Enterprises Corporation
Notes to the Consolidated Financial Statements
March 31, 2019 and 2018
(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

| | Non-Current Assets \$ | Equity \$ | Non-Current Liabilities \$ | Current Liabilities \$ |
|---|-----------------------------|--------------|----------------------------------|------------------------------|
| Ending Statement of Financial Position at March 31, 2019 | 7,845,894 | 5,351,137 | 3,602,145 | 1,982,101 |
| Reversal of deferred lease liability | - | 195,235 | (195,235) | - |
| Related increase in deferred tax liability | - | (52,713) | 52,713 | - |
| Recognition of right-to-use asset and related lease liability | 2,934,789 | - | 2,740,762 | 194,027 |
| Application of lease deposits to lease liability | (18,012) | - | (18,012) | - |
| Opening Statement of Financial Position at April 1, 2019 | 10,762,671 | 5,493,659 | 6,182,373 | 2,176,128 |

4. FINANCIAL INSTRUMENTS

The company has various financial instruments including trade and other receivables, cash and cash equivalents, revolving bank loans, term bank loans, trade and other payables and interest rate swaps. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Interest rate swaps are carried at fair value. Trade and other receivables and all non-interest rate swap financial liabilities are carried at amortized cost.

IFRS establishes a fair value hierarchy that requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The company primarily applies the market approach for recurring fair value measurements. There are three input levels that may be used to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents and interest rate swaps are measured using level 1 inputs. Trade and other receivables, revolving bank loans, and trade and other payables are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of the term loans approximates the carrying value because the interest rates are at fluctuating market rates.

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Trade and other receivables are the result

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4. FINANCIAL INSTRUMENTS (continued)

of sales to a relatively wide customer base, primarily in North America. The company only deals with customers that it considers creditworthy. Nevertheless, during the year ended March 31, 2019, one of its customers entered into creditor protection proceedings while it attempts to refinance its operations, making the collection of \$70,578 in receivables doubtful, for which the company has made a full impairment allowance. At March 31, 2019 \$29,698 (2018 – \$43,406) of trade and other receivables were between 31 and 60 days past due and \$nil (2018 – \$13,989) were more than 60 days past due, not including the receivables written off. The company does not consider these accounts impaired based on a review of the debtors' operations and subsequent payments. During the year ended March 31, 2019 the company wrote off \$70,578 in trade and other receivables (2018 – \$8,761). At March 31, 2019 the amount of \$618,137 was due from three customers (2018 – \$320,838, two customers), each of whom represented more than 10% and together represented an aggregate of 47% of trade and other receivables (2018 – 29%). Two of the customers are long standing customers who consistently make regular payments and the third promptly pays within 15 days.

The company's revolving bank loan and term bank loan are at interest rates that fluctuate with market interest rates. The company has entered into an interest rate swap 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 are reflected in profit, but will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Portions of the company's cash and cash equivalents, trade and other receivables, and trade and other payables are denominated in US dollars; accordingly, the company is exposed to fluctuations in the US/Cdn dollar exchange rates. While the amounts of exposure change on a daily basis, the company generally has more US dollar liabilities than US dollar financial assets. Over the past year, the exposure ranged from US\$100,424 net assets to US\$326,370 net liabilities and averaged US\$97,312 net liabilities (calculated on a monthly basis) and, at March 31, 2019, net liabilities were US\$103,340. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.34 to Cdn\$1.35) 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\$1,033 on an exposure of US\$103,340. During the year ended March 31, 2019 the company realized foreign exchange losses of \$8,737 (2018 – gains of \$4,059). 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.

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5. PLANT AND EQUIPMENT

| | Factory equipment \$ | Leasehold improvements \$ | Office equipment \$ | Total \$ |
|---|----------------------------|---------------------------------|---------------------------|-------------|
| At March 31, 2017 | | | | |
| Cost | 12,599,814 | 141,665 | 138,970 | 12,880,449 |
| Accumulated depreciation | (4,047,061) | (17,261) | (80,179) | (4,144,501) |
| Net book value | 8,552,753 | 124,404 | 58,791 | 8,735,948 |
| Additions | 116,533 | 17,454 | 4,871 | 138,858 |
| Disposals – cost | (5,000) | - | (4,642) | (9,642) |
| Disposals – accumulated depreciation | 4,000 | - | 4,642 | 8,642 |
| Depreciation | (685,921) | (6,871) | (12,915) | (705,707) |
| At March 31, 2018 | | | | |
| Cost | 12,711,347 | 159,119 | 139,199 | 13,009,665 |
| Accumulated depreciation | (4,728,982) | (24,132) | (88,452) | (4,841,566) |
| Net book value | 7,982,365 | 134,987 | 50,747 | 8,168,099 |
| Additions | 320,108 | 10,703 | 4,821 | 335,632 |
| Disposals – cost | (160,204) | - | (3,930) | (164,134) |
| Disposals – accumulated depreciation | 160,204 | - | 3,930 | 164,134 |
| Depreciation | (668,111) | (7,807) | (9,497) | (685,415) |
| At March 31, 2019 | | | | |
| Cost | 12,871,251 | 169,822 | 140,090 | 13,181,163 |
| Accumulated depreciation | (5,236,889) | (31,939) | (94,019) | (5,362,847) |
| Net book value | 7,634,362 | 137,883 | 46,071 | 7,818,316 |

Included in factory equipment at March 31, 2019 is equipment costing \$179,136 (2018 – \$202,946) that was under construction or refurbishment or had not otherwise been made available for use. Substantially all of the plant and equipment has been pledged as collateral for the company's bank loans (notes 9 and 10).

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6. INVENTORY

| | 2019 | 2018 |
|-----------------|------------------|----------------|
| | \$ | \$ |
| Raw materials | 943,014 | 704,102 |
| Finished goods | 301,067 | 287,401 |
| Total inventory | <u>1,244,081</u> | <u>991,503</u> |

Substantially all of the inventory has been pledged as collateral for the company's bank loans (notes 9 and 10).

7. SHARE CAPITAL

Authorized

The company is authorized to issue an unlimited number of common shares without par value.

Issued

| | <u>Common Shares Issued</u> | |
|---|-----------------------------|-----------------------|
| | <u>Number</u> | <u>Ascribed Value</u> |
| | | \$ |
| Outstanding at March 31, 2017 and 2018 | 33,665,800 | 3,883,225 |
| Issued on the exercise of stock options | <u>150,000</u> | <u>20,715</u> |
| Outstanding at March 31, 2019 | <u>33,815,800</u> | <u>3,903,940</u> |

Stock Option Plan

During the year ended March 31, 2016 the company adopted a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 10% of the outstanding common shares of the company at the time of the grant, less any stock options previously granted and still outstanding. Options granted under the plan expire after a maximum of 10 years. The option exercise price is generally set as the market price at the time of granting; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange. No options have been granted under this plan.

During the year ended March 31, 2015 stock options were granted under the company's previous stock option plan to purchase a total of 2,000,000 common shares at \$0.09 per share until December 3, 2019. The options were fully vested on granting. The fair value of \$96,200 ascribed to the stock options was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.3%, a dividend yield of 0%, an expected option life of 5 years and expected volatility of 63%. The expected volatility was estimated using 5 years of historical data. An option to purchase 150,000 shares was forfeited during the year ended March 31, 2018 after the resignation of the holder. An option to purchase 150,000 shares was exercised during the year ended March 31, 2019. The options on the remaining 1,700,000 shares outstanding has a remaining life of 0.7 years at March 31, 2019.

Subsequent to March 31, 2019 the Company declared a quarterly dividend of \$0.0025 per share payable on June 20, 2019 to the shareholders of record on June 7, 2019.

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8. INCOME TAX

The components of the company's deferred income tax asset and liability are the tax effects of temporary differences in the tax and accounting bases of:

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| Operating losses carried forward | 9,566 | 5,594 |
| Allowable capital losses carried forward | 35,691 | 32,993 |
| | 45,257 | 38,587 |
| Valuation allowance | (35,691) | (32,993) |
| Net deferred tax asset | 9,566 | 5,594 |
| Depreciation of plant and equipment | 1,955,340 | 2,098,968 |
| Operating losses carried forward | (1,023,378) | (1,337,982) |
| Net deferred tax liability | 931,962 | 760,986 |

The income tax expense shown on the consolidated statements of comprehensive income differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to profit or loss before tax as follows. The rates differ from 2018 to 2019 as the British Columbia statutory rate increase by 1% effective January 1, 2018.

| | 2019 | 2018 |
|--|---------|---------|
| | \$ | \$ |
| Combined statutory rate | 27.00% | 26.25% |
| Income tax expense based on the statutory rates | 158,832 | 118,032 |
| Tax effect of expenses that are not deductible for income tax purposes | 5,474 | 4,884 |
| Increase in valuation allowance | 2,698 | 1,957 |
| Increase in tax rates | - | 26,743 |
| Income tax expense for the year | 167,004 | 151,616 |
| Current portion | - | - |
| Deferred portion | 167,004 | 151,616 |

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9. REVOLVING BANK LOANS

The company has a \$1,500,000 revolving bank loan facility. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of U.S. 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 rate plus 0.5% per annum and are payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral. No loans were outstanding under this facility at March 31, 2019 or 2018, however irrevocable letters of credit totaling US\$69,200 were outstanding at March 31, 2019 against the loan facility (note 18).

The company has covenanted with the bank to maintain various financial ratios and was in compliance with these covenants at March 31, 2019.

10. TERM BANK LOANS

The company has a term bank loan facility used for the purchase of certain production equipment. Repayment of the loans is in monthly instalments of \$59,524 with a final payment of the balance of principal in August 2020. Interest is payable monthly at bank prime rate plus 0.5% per annum. The company has entered into an interest rate swap with an effective date of December 22, 2017 and a maturity date of November 22, 2022. This swap effectively fixes the interest on the term bank loan to 3.88% per annum, comprising 2.38% which is fixed under the swap and a 1.5% credit charge.

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 has been pledged as collateral. The covenants applicable to the revolving bank loans (note 9) also apply to the term loan facility.

11. TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|--|------------------|----------------|
| | \$ | \$ |
| Payable to suppliers for trade purchases | 1,032,745 | 587,915 |
| Payable to employees for wages and expenses | 139,107 | 110,633 |
| Payable to governments for withholding and sales taxes | 50,810 | 41,901 |
| Accrued liabilities | 45,151 | 42,000 |
| | <u>1,267,813</u> | <u>782,449</u> |

12. SALES

| | 2019 | 2018 |
|--------------------------------|-------------------|------------------|
| | \$ | \$ |
| Personal hygiene products | 4,046,919 | 4,266,950 |
| Clinical products | 1,823,461 | 1,784,060 |
| Long-term care products | 1,992,870 | 2,392,582 |
| Non-clinical air laid products | 3,419,296 | 1,283,943 |
| Other products | 80,616 | 101,490 |
| | <u>11,363,162</u> | <u>9,829,025</u> |

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13. COST OF SALES

| | 2019 | 2018 |
|-------------------------|------------------|------------------|
| | \$ | \$ |
| Materials | 5,870,295 | 4,941,399 |
| Production labour | 975,466 | 868,011 |
| Factory overhead labour | 468,567 | 433,100 |
| Variable overhead | 436,285 | 322,600 |
| Fixed overhead | 522,804 | 514,913 |
| Depreciation | 675,919 | 692,792 |
| | <u>8,949,336</u> | <u>7,772,815</u> |

14. SELLING AND DISTRIBUTION EXPENSES

| | 2019 | 2018 |
|--|----------------|----------------|
| | \$ | \$ |
| Shipping | 777,028 | 700,775 |
| Wages, commissions and other employee benefits | 103,872 | 109,660 |
| Other | 15,593 | 17,445 |
| | <u>896,493</u> | <u>827,880</u> |

15. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2019 | 2018 |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| Administration and office | 149,774 | 149,169 |
| Corporate promotion | 12,996 | 9,753 |
| Impairment loss on trade receivables | 70,578 | 8,761 |
| Professional fees | 62,737 | 56,792 |
| Salaries and other employee benefits | 467,414 | 433,183 |
| | <u>763,499</u> | <u>657,658</u> |

16. SUPPLEMENTARY CASH FLOW INFORMATION

During the year ended March 31, 2019 trade and other payables related to the purchase of plant and equipment decreased by \$25,922 (2018 – increased by \$21,139).

17. SEGMENTED INFORMATION

The company operates in one industry, the disposable paper and polyethylene industry. The company's plant and equipment are located in Canada. During the year ended March 31, 2019 the company had domestic sales in Canada of \$6,404,052 (2018 – \$6,437,182) and export sales to the United States and its territories of \$4,959,110 (2018 – \$3,391,843). During the year ended March 31, 2019 the company had sales to three customers of \$5,109,847 (2018 – two customers, \$2,423,944), each of whom represented more than 10% of sales.

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18. COMMITMENTS

The company has an operating lease for premises ending October 31, 2029. Future minimum lease payments are as follows:

| Years ending March 31 | \$ |
|-----------------------|---------|
| 2020 | 309,810 |
| 2021 – 2022 | 324,865 |
| 2023 | 335,619 |
| 2024 | 350,674 |
| 2025 | 356,050 |
| 2026 – 2027 | 363,578 |
| 2028 | 368,955 |
| 2029 | 376,482 |
| 2030 | 219,615 |

Operating costs and property taxes for the premises, currently estimated at \$154,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2019 the company expensed \$330,599 (2018 – \$330,599) in minimum lease payments, and \$152,747 (2018 – \$157,219) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

The company has made commitments to purchase machinery in the amount of US\$69,200. The commitments are supported by irrevocable letters of credit issued under the revolving bank loan facility (note 9).

19. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2019:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$399,389 (2018 – \$376,414) to directors and officers of the company; and
- The company incurred \$11,328 (2018 – \$7,370) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

20. CAPITAL DISCLOSURES

The company manages share capital, warrants, stock options and retained earnings as capital. The company's objectives when managing capital are: to safeguard the ability of the company to continue as a going concern; to permit the company to continue expanding its operations, to the extent compatible and economically viable expansion opportunities are available; and to maximize shareholder returns. The company employs policies and processes for managing capital: to ensure that the covenants and terms under its revolving bank loans and term bank loans are complied with; to ensure that adequate prices are received for the company's production to maximize operating cash flows; and to maximize shareholder returns. The company was in compliance with the covenants and terms under its revolving bank loans and term bank loans during the years ended March 31, 2019 and 2018.