



# **WestBond Enterprises Corporation**

## **Quarterly Report September 30, 2020**

### **Management Discussion and Analysis**

Dated November 25, 2020 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 2020

**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 manufactures disposable paper products for medical, hygienic and industrial uses. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2020 Annual Report. A pdf version of the 2020 Annual Report may be downloaded from our web site at [www.westbond.ca](http://www.westbond.ca) or from the SEDAR web site at [www.sedar.com](http://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, 2020 and our consolidated financial statements for the year ended March 31, 2020 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 2020 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 18, 2020, the date of the Management Discussion and Analysis in the 2020 Annual Report, is not repeated here.

Sales were \$3,268,300 for the three months ended September 30, 2020, which is 8.7% higher than for the three months ended September 30, 2019 and 67.1% higher than for the three months ended June 30, 2020. We realized a profit of \$538,291 (\$0.015 per share) for the three months ended September 30, 2020, an increase of 293.2% over the profit of \$136,909 (\$0.004 per share) for the same period last year. The increase in both sales and profit is due to the introduction of our wet-wipe products in late August and increased demand for our dry-wipe products, offset by reduced demand for restaurant napkins and away-from-home personal hygiene products caused by the covid-19 pandemic restrictions.

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

#### **WestBond Enterprises Corporation**

101 – 7403 Progress Way, Delta, BC Canada V4G 1E7  
Tel: 604-940-3939 Fax: 604-940-9161  
[www.WestBond.ca](http://www.WestBond.ca) [info@WestBond.ca](mailto:info@WestBond.ca)

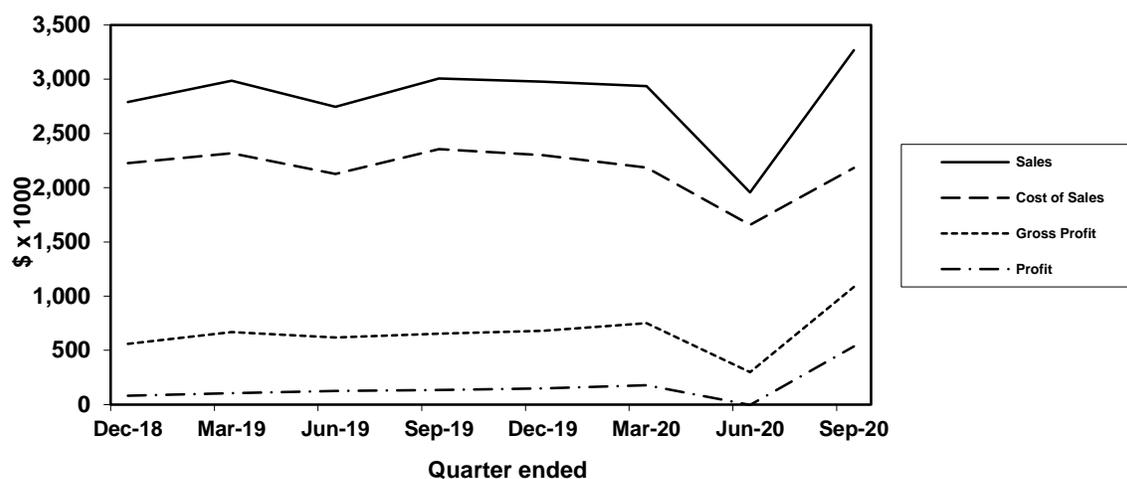
## Summary of Quarterly Results

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 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018
Sales	3,268	1,955	2,936	2,978	3,007	2,746	2,985	2,788
Cost of sales	2,182	1,656	2,186	2,298	2,354	2,128	2,317	2,228
Gross profit	1,086	299	750	680	653	618	668	560
Selling and distribution expenses	208	186	224	249	233	216	220	224
General and administrative expenses	186	181	176	184	178	171	253	168
Operating profit (loss)	692	(68)	350	247	242	231	195	168
Other (income) expenses	(42)	(64)	87	44	56	59	43	55
Profit (loss) before tax	734	(4)	263	203	186	172	152	113
Income tax expense (recovery)	196	(1)	84	52	49	48	48	31
(Net loss) profit	538	(3)	179	151	137	124	104	82
Earnings (loss) per share, basic and diluted - Cdn\$	0.015	(0.000)	0.005	0.004	0.004	0.004	0.003	0.002
Dividends paid per share - Cdn\$	-	-	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Sales - % change over previous quarter</b>	67.1	-33.4	-1.4	-0.9	9.5	-8.0	7.1	2.3

### Costs, expenses and net income - % of Sales

Cost of sales	66.8	84.7	74.4	77.1	78.3	77.5	77.6	79.9
Selling and distribution expenses	6.4	9.5	7.6	8.3	7.7	7.9	7.4	8.1
General and administrative expenses	5.7	9.3	6.0	6.2	5.9	6.2	8.5	6.0
Other (income) expenses	(1.3)	(3.3)	3.0	1.5	1.9	2.1	1.4	2.0
Income tax expense (recovery)	6.0	(0.1)	2.9	1.8	1.6	1.8	1.6	1.1
Net profit (loss)	16.5	(0.1)	6.1	5.1	4.6	4.5	3.5	2.9



## Sales

Sales for the three months ended September 30, 2020 were 8.7% higher than for the same period last year and 66.8% higher than the previous quarter, ended June 30, 2020. As a supplier of clinical and personal hygiene products, essential services, we have remained in operation during the covid-19 pandemic shut-downs, which started in March 2020. Toilet paper and dry wipe products were in high demand during March and April 2020. Toilet paper demand dropped off in May through September due to over stockpiling in March and April. Demand has fallen for our personal hygiene products, which are used in away from home locations, many of which are operating at greatly reduced capacity. Clinical products demand has fallen as clinics and doctors' offices have reduced in-person patient visits. Dry wipes continue in high demand. Previously dry wipes were mainly used in long-term care facilities, they are now sold to other markets as well. Demand for non-wipe air laid products, which primarily end up in restaurants, has fallen.

We have installed a wet-wipe production line and have developed a disinfectant wipe which uses our air laid paper, or the industry standard nonwoven material, in a small flip-top tub dispenser. Health Canada has approved our disinfectant wipe application and issued it a Drug Identification Number. Current demand for the product is high. Sales of this product commenced the last week of August 2020 under the trademark ViroBan Plus. We expect volumes to significantly increase our revenues.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2020	2020		2020	2019	
	\$	\$		\$	\$	
Personal hygiene	570,685	979,457	-41.7%	1,283,144	1,949,291	-34.2%
Clinical	380,753	470,497	-19.1%	694,590	923,599	-24.8%
Wipes	1,943,332	500,760	288.1%	2,670,327	954,967	179.6%
Non-wipe air laid	366,716	1,046,526	-65.0%	552,639	1,902,999	-71.0%
Other	6,814	9,783	-30.3%	22,941	22,211	3.3%
	<u>3,268,300</u>	<u>3,007,023</u>	<u>8.7%</u>	<u>5,223,641</u>	<u>5,753,067</u>	<u>-9.2%</u>

## Cost of Sales

Materials costs, as a percentage of sales, is lower in 2020 than 2019 as wipe sales generate higher margins than the other product lines. Production labour remained high because of training and slow ramp-up rates for the wet-wipe production line, and a general wage rate increase for most production employees. We expect labour costs, as a percentage of sales to decrease during the quarter. Fixed overhead and depreciation are stable.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
	% of sales	% of sales	% of sales	% of sales
Materials	43.0%	53.7%	44.5%	51.2%
Production labour	7.9%	7.8%	8.6%	8.7%
Factory overhead labour	3.7%	3.5%	5.1%	3.8%
Variable overhead	3.6%	3.7%	4.4%	4.3%
Fixed overhead	1.6%	1.9%	2.1%	1.8%
Depreciation of plant equipment	5.0%	5.6%	6.3%	5.8%
Depreciation of right-of-use assets	2.0%	2.1%	2.5%	2.3%
Gross Profit	<u>33.2%</u>	<u>21.7%</u>	<u>26.5%</u>	<u>22.1%</u>

## Selling and Distribution Expenses

Selling and distribution expenses during the three months ended September 30, 2020 were 6.4% of sales, compared to 7.7% for the three months ended September 30, 2019. The decrease is due to the introduction of wet-wipes which are very efficient to ship and have a higher sales value per case.

## General and Administrative Expenses

Administrative and office expenses were higher in the three months ended September 30, 2020 than in 2019 from an increase in audit fees and the recognition of an impairment loss on trade receivables from one of our smaller customers. Salary and other employee benefits increased due to higher rates of pay.

During the six months ended September 30, 2020 the company incurred total short-term employee benefits of \$200,489 (2019 – \$192,590) to its key management personnel, comprising the directors and officers of the company, and incurred \$8,400 (2019 – \$5,883) of professional fees in the normal course of operations paid to DuMoulin Black LLP, a law firm with which J. Douglas Seppala, a director of the company, is associated. The professional fees are for legal services provided to the Company at rates normally charged to arm's length parties.

### ***Other Income and Expenses***

Fluctuations in the US dollar exchange rate resulted in a \$3,065 loss during the three months ended September 30, 2020, compared with a \$4,270 loss in the same period last year. Interest expense on bank loans and lease liabilities is lower in 2020 than 2019 because of lower principal balances. The Canadian government emergency wage subsidy for July 2020 amounted to \$88,142. We did not qualify for the subsidy in August or September 2020 due to strong sales of wipes. We recognized an unrealized gain of \$8,827 to reflect the market value fluctuation of our interest rate swap during the three months ended September 30, 2020.

### **Liquidity, Financial Position and Capital Resources**

Our operating cash flows were \$1,296,702 during the six months ended September 30, 2020, an average of \$216,117 per month, compared to an average of \$170,785 per month during the year ended March 31, 2020, before accounting for fluctuations in non-cash working capital. We had working capital of \$1,286,983 at September 30, 2020, compared to \$1,183,745 at March 31, 2020. The change is due to positive operating cash flows offset by equipment purchases, term loan and interest payments and lease principal and interest payments.

We have suspended payment of our quarterly dividend effective June 2020 in order to ensure sufficient funds are available to invest in our new disinfectant wet-wipe production equipment and inventory. We intend to spend around \$1,500,000 over the next year, which we will finance from operating flows, supplemented with our revolving bank loan facility. The equipment will allow us to make raw materials for our wet-wipe line, providing us with a more stable supply.

We have a revolving bank loan facility of \$1,500,000. The loan outstanding at any time may not be greater than an amount based on percentages of accounts receivable and inventory less accounts payable having priority over the bank. The amount currently available, based on our Consolidated Statement of Financial Position at September 30, 2020, is \$1,275,000. 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. \$150,186 was outstanding under the revolving bank loan facility at September 30, 2020.

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. 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.

At September 30, 2020 we are in compliance with all of our covenants to the bank regarding the revolving bank loan facility and the term loan credit facility and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with the covenants, and are unable to obtain a waiver from the bank, the loans will become payable on demand.

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, 2020 we had an unrealized loss of \$54,084 on the interest rate swaps.

## 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 25, 2020</u>
Authorized common shares without par value	Unlimited
Issued common shares	35,515,800
Shares issuable on exercise of outstanding stock options	1,520,000
Shares available for future stock option grants	2,031,580

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](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://www.westbond.ca).