



# **WestBond Enterprises Corporation**

## **Quarterly Report September 30, 2021**

### **Management Discussion and Analysis**

**Dated November 24, 2021 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 2021**

**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 many market segments. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2021 Annual Report. A pdf version of the 2021 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, 2021 and our consolidated financial statements for the year ended March 31, 2021 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 2021 Annual Report. Information included in that discussion is only updated in this discussion. Information that has not changed materially since June 23, 2021, the date of the Management Discussion and Analysis in the 2021 Annual Report, is not repeated here.

Sales were \$2,942,297 for the three months ended September 30, 2021, which is 10.0% lower than for the three months ended September 30, 2020 and 8.6% higher than for the three months ended June 30, 2021. We realized a profit of \$182,353 (\$0.005 per share) for the three months ended September 30, 2021, compared to a profit of \$538,291 (\$0.015 per share) for the same period last year. The decrease in both sales and profit is due to reduced demand for our wet-wipe products, offset by increased demand for our non-wipe 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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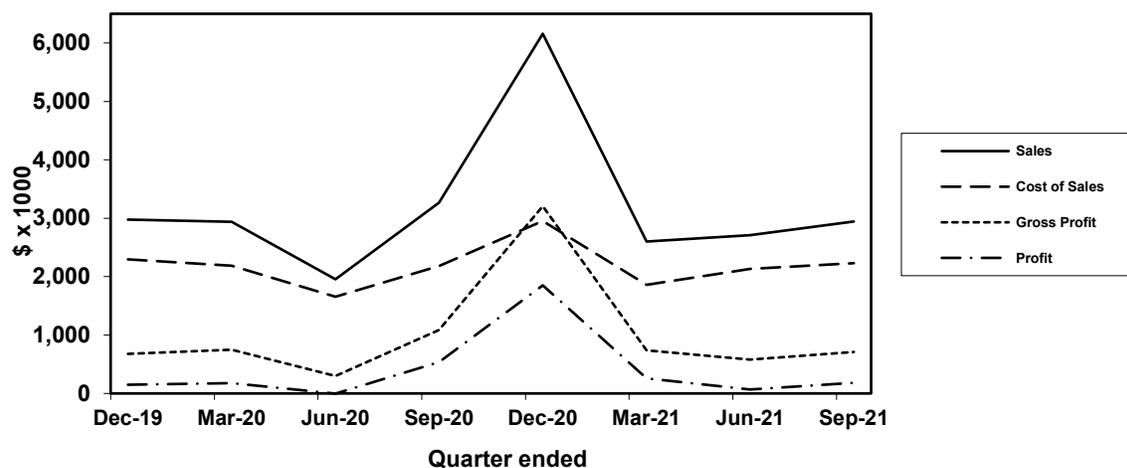
## Summary of Quarterly Results

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 2021	Jun 30 2021	Mar 31 2020	Dec 31 2020	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019
Sales	2,942	2,708	2,599	6,158	3,268	1,955	2,936	2,978
Cost of sales	2,233	2,130	1,861	2,952	2,182	1,656	2,186	2,298
Gross profit	709	578	738	3,206	1,086	299	750	680
Selling and distribution expenses	225	232	187	247	208	186	224	249
General and administrative expenses	207	211	165	333	186	181	176	184
Operating profit (loss)	277	135	386	2,626	692	(68)	350	247
Other expenses (income)	30	31	36	55	(42)	(64)	87	44
Profit (loss) before tax	247	104	350	2,571	734	(4)	263	203
Income tax expense (recovery)	65	34	92	721	196	(1)	84	52
Profit (net loss)	182	70	258	1,850	538	(3)	179	151
Earnings (loss) per share, basic and diluted - Cdn\$	0.005	0.002	0.007	0.052	0.015	(0.000)	0.005	0.004
Dividends paid per share - Cdn\$	-	0.02	0.02	-	-	-	0.0025	0.0025
<b>Sales - % change over previous quarter</b>	8.6	4.2	-57.8	88.4	67.1	-33.4	-1.4	-0.9

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

Cost of sales	75.9	78.6	71.6	47.9	66.8	84.7	74.4	77.1
Selling and distribution expenses	7.6	8.6	7.2	4.0	6.4	9.5	7.6	8.3
General and administrative expenses	7.0	7.8	6.3	5.4	5.7	9.3	6.0	6.2
Other expenses (income)	1.0	1.2	1.4	0.9	(1.3)	(3.3)	3.0	1.5
Income tax expense (recovery)	2.3	1.2	3.6	11.8	6.0	(0.1)	2.9	1.8
Net profit (loss)	6.2	2.6	9.9	30.0	16.5	(0.1)	6.1	5.1



## Sales

Sales for the three months ended September 30, 2021 were 10.0% lower than for the same period last year and 8.6% higher than the previous quarter, ended June 30, 2021. 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. Demand has fallen for our personal hygiene products, which are used in away from home locations, many of which are closed or operating at greatly reduced capacity, though demand for those products is now starting to rebound. Clinical products demand has fallen as clinics and doctors' offices have reduced in-person patient visits, though demand for these products is also starting to rebound. 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 to be used with disinfectant sprays. Demand for non-wipe air laid products, which primarily end up in restaurants, fell until March 2021 and is starting to rebound significantly.

In 2019, prior to covid-19, we committed to a disinfectant wipe production line because of the then existing market demands for these products. Most of our health care, janitorial and industrial customers carry these products. Covid-19 accelerated the demand for our ViroBan Plus disinfectant wipes which were introduced in late August 2020. We decided to support a government stockpiling contract for these wipes from August 2020 to January 2021. This contract is now completed. In addition, demand for ViroBan Plus declined significantly because, even though the wipes are Health Canada registered, they did not appear on their list of approved wipes for covid-19. The reason is that they were only tested and registered in the USA. Our wipes have now been tested and registered with Health Canada against SARS-2 (the virus that causes covid-19) and found the kill time to be 30 seconds – one of the best on the market. We have now received approval from Health Canada to add this claim to the ViroBan Plus label and ViroBan Plus is now on the Health Canada list of approved wipes. We expect our sales to increase significantly on a long-term basis.

Floods and mud slides caused by unprecedented rainstorms during November 2021 in southwestern British Columbia damaged and closed all road and rail routes connecting Greater Vancouver to the rest of Canada. Two minor road routes have recently re-opened for essential traffic only. This is reducing our ability to ship to Canadian customers outside the Greater Vancouver area. Shipments to US and local customers are not affected.

Sales	Three months ended		Change over last year	Six months ended		Change over last year
	September 30			September 30		
Product Line	2021	2020		2021	2020	
	\$	\$		\$	\$	
Personal hygiene	633,868	570,685	11.1%	1,237,612	1,283,144	-3.5%
Clinical	405,541	380,753	6.5%	878,453	694,590	26.5%
Wipes	378,979	1,943,331	-80.5%	858,623	2,670,327	-67.8%
Non-wipe air laid	1,488,403	366,716	305.9%	2,622,367	552,639	374.5%
Other	35,506	6,814	421.1%	53,733	22,941	134.2%
	2,942,297	3,268,299	-10.0%	5,650,788	5,223,641	8.2%

## Cost of Sales

Materials costs, as a percentage of sales, is higher in 2021 than 2020 as non-wipe air laid has a higher materials component than the other products. Production labour increased due to a general wage rate increase for most production employees and overtime pay made necessary by a labour shortage. Factory overhead labour decreased due to the retirement of the plant manager, whose duties were spread amongst other personnel. Fixed overhead is higher in 2021 due to increased insurance rates offset by a refund of lease operating costs and property taxes for last year.

Cost of Sales	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
	% of sales	% of sales	% of sales	% of sales
Materials	46.6%	43.0%	47.5%	44.5%
Production labour	9.2%	7.9%	9.2%	8.6%
Factory overhead labour	4.3%	3.7%	4.4%	5.1%
Variable overhead	5.1%	3.6%	5.2%	4.4%
Fixed overhead	2.2%	1.6%	2.0%	2.1%
Depreciation of plant equipment	6.3%	5.0%	6.6%	6.3%
Depreciation of right-of-use assets	2.2%	2.0%	2.3%	2.5%
Gross Profit	24.1%	33.2%	22.8%	26.5%

### ***Selling and Distribution Expenses***

Selling and distribution expenses during the three months ended September 30, 2021 were 7.6% of sales, compared to 6.4% for the three months ended September 30, 2020, which is within our normal operating range.

### ***General and Administrative Expenses***

Administrative and office expenses were higher in the three months ended September 30, 2021 than in 2020 from increased salaries and other employee benefits for administrative staff, both from increased staff and increased pay rates.

During the six months ended September 30, 2021 the company incurred total short-term employee benefits of \$226,710 (2020 – \$200,489) to its key management personnel, comprising the directors and officers of the company, and incurred \$4,280 (2020 – \$8,400) 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 \$5,734 gain during the three months ended September 30, 2021, compared with a \$3,065 loss in the same period last year. Interest expense on bank loans and lease liabilities is lower in 2021 than 2020 because of lower principal balances. We recognized an unrealized gain of \$7,121 to reflect the market value fluctuation of our interest rate swap during the three months ended September 30, 2021. We no longer qualify for the Canada Emergency Wage Subsidy that we received in 2020.

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

Our operating cash flows, before accounting for fluctuations in non-cash working capital were \$587,181 during the six months ended September 30, 2021, an average of \$97,864 per month, compared to an average of \$408,588 per month during the year ended March 31, 2021. The reduction is from reduced sales. We had working capital of \$1,250,488 at September 30, 2021, compared to \$1,893,571 at March 31, 2021. The change is due to positive operating cash flows offset by increased receivables, decreased accounts payable, equipment purchases, term loan and interest payments, lease principal and interest payments and dividends paid.

We resumed our quarterly dividend in March and June 2021 at the increased rate of \$0.02 per share. We have temporarily suspended the quarterly dividend until the sales and profits increase with the re-opening of our economy, which we expect in the December 2021 or March 2022 quarters. We intend to spend around \$200,000 on equipment over the next year, which we will finance from operating cash flows, supplemented by our revolving bank loan facility.

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, 2021, is \$1,440,000. Loans outstanding under the facility bear interest at bank prime plus 0.5%. Substantially all our assets are pledged as collateral for the revolving bank loan facility. A balance of \$654,748 was outstanding under the revolving bank loan facility at September 30, 2021.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$500,000 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, 2021 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 \$25,000. A 1% decrease could create an unrealized loss of approximately \$50,000. 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, 2021 we had an unrealized loss of \$20,511 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 24, 2021</u>
Authorized common shares without par value	Unlimited
Issued common shares	35,625,800
Shares issuable on exercise of outstanding stock options	1,410,000
Shares available for future stock option grants	2,152,580

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).