



WestBond Enterprises Corporation

Management Discussion and Analysis

dated June 17, 2022, to accompany the consolidated financial statements for the year ended March 31, 2022

Caution Regarding Forward Looking Statements – This discussion includes statements about our expectations for the future. We believe that our expectations are reasonable; however, actual outcomes may differ materially from our expectations due to changes in operating performance, availability of and prices for raw materials, availability of trained labour, foreign currency exchange rate fluctuations, unexpected competition, and other technical, market and economic factors.

Description of Our Business

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

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

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

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

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

Our plant equipment enables us to provide a comprehensive range of products for each of our product lines and allows us to utilize a wide variety of paper supplies, enabling us to take advantage of good raw material pricing opportunities. We also have equipment that will allow us to produce facial tissue and other air-laid products.

We started production on our binder bonded air-laid paper making machine in August 2015. The machine can produce air-laid paper at a significantly lower cost than current purchase prices. We use 35% - 40% of the production capacity of the machine for our own finished products and are selling production from surplus capacity to other paper converters.

We started up a wet-wipe production line in August 2020 and commenced sales of disinfectant wipes to government distribution centres and nursing home suppliers.

Personal Hygiene Products – We started this product line during 2002. Our decision to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing distributors who wanted to increase their purchasing ability with us. We evaluated this potential and

determined that there was a high demand for these types of products. In addition, we soon learned that small to medium size distributors who sell to the janitorial market were not being serviced well by other paper converters.

The personal hygiene paper products include roll towels, jumbo roll bathroom tissue, conventional high-sheet-count bathroom tissue and a specialty line of roll towels and bathroom tissue. This specialty line provides us with high margin products that few converters are able to produce. We manufacture our products in 1 and 2 ply formats. In 2015, we introduced a premium line of air-laid roll towels to the market. We sell these products to Canadian and US distributors and janitorial contractors in large order quantities.

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

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

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

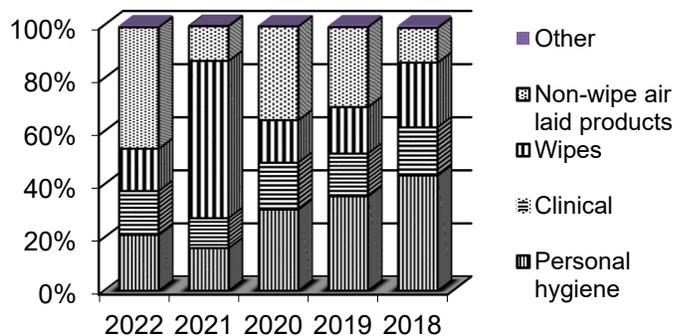
Products are available in 1/4 fold, 1/8 fold, and roll formats, in a variety of widths and perforation lengths. The long-term care market is growing and we continue to develop new products for major Canadian and US distributors.

Our disinfectant wet-wipes, marketed under the brand name “ViroBan Plus” are also included in this category.

Non-Wipe Air-laid Products– This product line includes bulk air-laid parent rolls sold to other paper converters and our own line of high quality air-laid napkins for use in restaurants. These napkins replace costly linen napkins and also out-perform conventional paper napkins, reducing operating costs of many restaurants. These products are sold through major food service distributors. The addition of our own air-laid paper making machine is allowing us to grow this business substantially.

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

The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2018 through 2022.



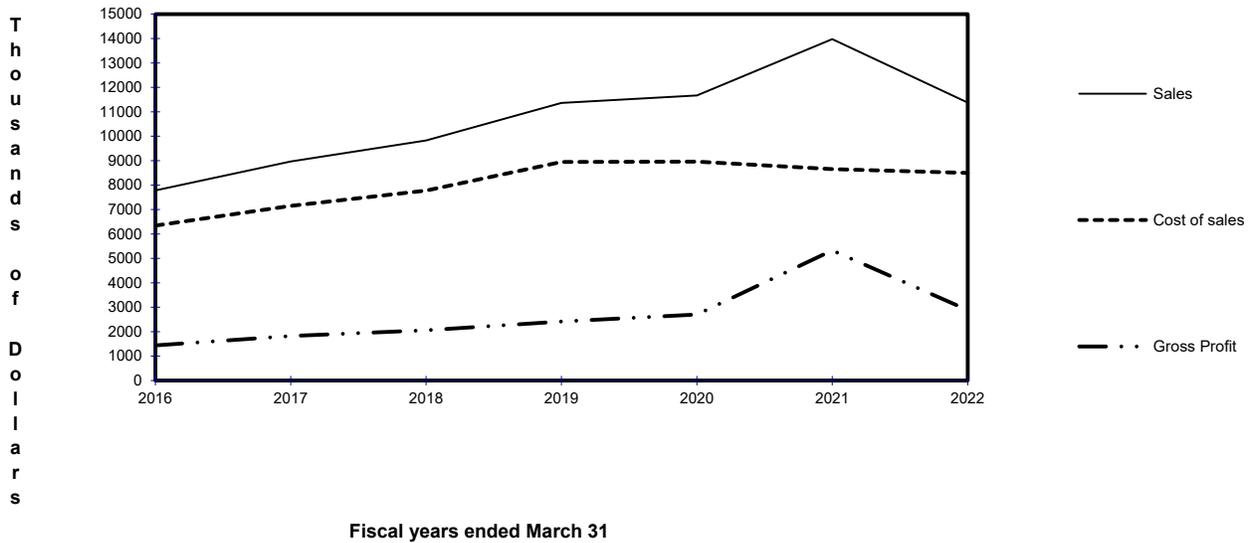
Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2022 while you read this discussion. Those financial statements provide significant, material information that is not meant to be,

nor is it included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

We realized a profit of \$693,220 during the year ended March 31, 2022, compared to \$2,642,997 for the year ended March 31, 2021. Our gross profit margin realized during 2022 was 25.3% compared to 38.1% for 2021. Our gross profit margins were lower in 2022 than in 2021 due to the completion of a government contract for the provision of disinfectant wet-wipes.

Sales, Cost of Sales and Gross Profit



Selected Annual Information (Unaudited)

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

Operating Results	Years ended March 31					
	2022		2021		2020	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	11,378,650	100.0	13,979,808	100.0	11,667,892	100.0
Cost of sales	8,495,751	74.7	8,651,691	61.9	8,965,574	76.8
Gross profit	2,882,899	25.3	5,328,117	38.1	2,702,318	23.2
Selling and distribution expenses	926,463	8.1	828,144	5.9	922,061	7.9
General and administrative expenses	855,885	7.5	864,985	6.2	710,094	6.1
Other expenses and (income)	141,452	1.3	(16,667)	-0.1	245,533	2.1
Profit before tax	959,099	8.4	3,651,655	26.1	824,630	7.1
Income tax expense	265,879	2.3	1,008,658	7.2	233,614	2.0
Profit and comprehensive income	693,220	6.1	2,642,997	18.9	591,016	5.1
Earnings per share, basic	0.019		0.074		0.017	
Earnings per share, fully diluted	0.019		0.074		0.017	
Cash dividends paid per common share	0.025		0.02		0.01	

Financial Position	March 31		
	2022	2021	2020
	\$	\$	\$
Non-Current Assets	10,725,450	11,419,763	10,239,977
Current Assets	3,537,346	4,129,973	3,380,412
Total assets	14,262,796	15,549,736	13,620,389
Non-Current Liabilities	4,525,979	5,324,736	5,532,705
Current liabilities	1,945,644	2,236,402	2,196,667
Shareholders' equity	7,791,173	7,988,598	5,891,017

Sales

Sales were \$11,378,650 for the year ended March 31, 2022, an 18.6% decrease over the year ended March 31, 2021. The table below summarizes the sales of the Company for the last five fiscal years.

	2022	2021	2020	2019	2018
	\$	\$	\$	\$	\$
Personal hygiene products	2,394,594	2,250,890	3,570,404	4,046,919	4,266,950
Clinical products	1,880,769	1,574,748	2,061,075	1,823,461	1,784,060
Wipe products	1,815,722	8,276,885	1,868,135	1,992,870	2,392,582
Non-clinical air-laid products	5,201,305	1,827,960	4,118,076	3,419,296	1,283,943
Other products	86,260	49,325	50,202	80,616	101,490
Total sales	11,378,650	13,979,808	11,667,892	11,363,162	9,829,025
Change over previous year	-18.6%	19.8%	2.7%	15.6%	9.6%

Sales were exceptional for the year ended March 31, 2021 due to a government supply contract for wet-wipe products that was fulfilled and not renewed. 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 were closed or operating at greatly reduced capacity, though demand for those products is now starting to rebound. Clinical products demand is now starting to rebound as clinics and doctors' offices had 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 to be used with disinfectant sprays. Demand for non-wipe air-laid products, which primarily end up in restaurants, fell until March 2021 and has rebounded 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 sales growth in all health-care and janitorial markets to increase accordingly.

Floods and mud slides caused by unprecedented rainstorms during November 2021 in southwestern British Columbia damaged and closed the major road and rail routes connecting Greater Vancouver to the rest of Canada for several weeks. This reduced our ability to ship to Canadian customers outside the Greater Vancouver area. We estimate that sales exceeding \$500,000 remained unshipped because of the transportation closures. Shipments to US and local customers were not affected.

Cost of Sales

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

	2022		2021		2020		2019		2018	
	\$	% sales								
Materials	5,141,268	45.2	5,287,611	37.9	5,882,856	50.4	5,870,295	51.7	4,941,399	50.3
Production labour	1,027,892	9.0	1,102,209	7.9	962,145	8.2	975,466	8.6	868,011	8.8
Factory overhead										
labour	472,864	4.2	589,335	4.2	463,599	4.0	468,567	4.1	433,100	4.4
Variable overhead	610,368	5.4	490,470	3.5	508,374	4.4	436,285	3.8	322,600	3.3
Fixed overhead	253,418	2.2	234,051	1.7	216,610	1.9	522,804	4.6	514,913	5.2
Depreciation of										
- plant equipment	731,768	6.4	689,841	4.9	673,109	5.7	675,919	6.0	692,792	7.1
- right-of-use assets	258,173	2.3	258,174	1.8	258,881	2.2	-	-	-	-
Total cost of sales	<u>8,495,751</u>	<u>74.7</u>	<u>8,651,691</u>	<u>61.9</u>	<u>8,965,574</u>	<u>76.8</u>	<u>8,949,336</u>	<u>78.8</u>	<u>7,772,815</u>	<u>79.1</u>

Materials are the most significant component of cost of sales. Bulk paper and pulp are our main materials cost. All of our products have a high materials component and a low labour component. Materials costs were lower in 2021 and 2022 as a percentage of sales due to higher margins on our wipe and non-wipe air-laid products.

Unfavourable paper yields, the amount of product that a certain weight of paper produces, increased materials costs by a factor of 2.9% of sales in 2022, 0.6% in 2021, 1.5% in 2020, 2.4% in 2019 and 2.7% in 2018. During part of the 2022 and 2020 fiscal years, most of the 2019 fiscal year and part of the 2018 fiscal year we had difficulty purchasing paper in optimum grades, which meant we had to substitute heavier

grades than standard, resulting in higher paper usage, and sizes, which caused higher than standard wastage.

Paper prices have increased in all fiscal years since 2006 except in our 2017 fiscal year when they were relatively stable. Paper prices can be volatile, additionally, our paper and pulp purchases are denominated in US dollars, which can fluctuate significantly. Our prices to our customers have been set to allow for paper cost increases of up to 10%.

Production labour in cost of sales averaged 9.0% in 2022 compared to 7.9% during 2021, 8.2% during 2020, 8.6% during 2019, and 8.8% during 2018. Production labour increased in 2022 due to a general wage rate increase for most production employees and overtime pay made necessary by a labour shortage. The decrease from 2018 to 2021 is from improved operating efficiencies and, in 2021 and 2022, to higher margins on our wipe products. The labour market near our factory has been tight during the last few years and it has taken extra time to find and train new machine operators. We increased our wage rates in 2021 in order to attract more employees.

Total factory overhead labour decreased in 2022 due to the retirement of the plant manager, whose duties were spread amongst other personnel, though as a percentage of sales, it remains the same as in 2021. Factory overhead labour increased in 2021 as a percentage of sales due to higher wage rates and decreased in 2020 and 2019 due to increased sales volumes. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2022, 2020 and 2019, is higher than previous years due to increased electricity and gas to operate the air-laid paper machine. Gas and electricity costs decreased in 2021 due to lower air-laid production. Variable overhead also increased in 2022, 2021 and 2020 due to higher waste disposal costs.

Fixed overhead and depreciation changed significantly in 2020 due to the adoption of *IFRS 16, Leases*. We were required to capitalize our premises lease and separate the minimum payments into principal and interest, increasing depreciation expense and reducing rent expense. Depreciation increased by \$258,880 and rent decreased by \$317,382.

Fixed overhead in 2022 includes \$14,056 in higher insurance premiums offset by \$5,311 in lower rent. Fixed overhead in 2021 includes \$17,035 in higher insurance premiums. Fixed overhead in 2020 includes \$11,189 in higher insurance premiums. Fixed overhead in 2019 includes \$10,863 in higher insurance premiums offset by \$2,972 in lower rent. Increases in depreciation expense are the result of bringing new equipment into use. The slight decreases in 2019 and 2018 are due to revised estimates of the useful lives of some of the equipment.

Selling and Distribution Expenses

Selling and distribution expenses were higher in 2022 than in 2021 because a large portion of our sales in 2021 were to a local customer, resulting in low freight costs. Our USA sales volume increased significantly in 2022 causing the related shipping expenses to increase. Supply chain issues in 2022 caused freight rates to increase.

General and Administrative Expenses

General and administrative expenses decreased in 2022 over 2021 due to no stock option grants in 2022 offset by higher rates of pay.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Nevertheless, during the year ended March 31, 2019, one of our customers entered into creditor protection proceedings while it attempted to refinance its operations, making the collection of \$70,578 in receivables doubtful, for which we made a full impairment allowance. In 2021 the customer successfully refinanced its operations and paid 50% of the receivable. The remaining 50% is being paid in monthly instalments over three years. Accordingly, we recognized an impairment gain on this receivable in 2021, which was offset by a loss of \$18,311 from the bankruptcy of another customer. Recent general economic conditions caused by covid-19 pandemic shut-downs may cause some of our other customers to be less creditworthy. We regularly monitor our receivables aging and discuss overdue accounts with senior-level customer personnel to encourage more prompt payment and to evaluate future creditworthiness. At March 31, 2022, trade and other receivables include \$86,213 that is more than 30 days past due, not including the receivables written off, and against which we have made no allowance for impairment. We believe that we will eventually receive full payment of these amounts.

During the year ended March 31, 2022 professional fees include \$11,376 paid to DuMoulin Black LLP, a law firm with which J. Douglas Seppala, one of our directors, was associated. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties. During the year ended March 31, 2022, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$467,931 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$438,028 of the compensation is included in general and administrative salaries and employee benefits, \$24,820 is included in administration and office and \$5,083 is included in other selling and distribution expenses.

Other Income and Expenses

We are exposed to fluctuations in the US/Cdn dollar exchange rates as portions of our cash, trade and other receivables, prepaid expenses and trade and other payables are denominated in US dollars. While the amounts of exposure change on a daily basis, in 2022 we generally had more US dollar financial assets than US dollar liabilities. Over the past year, our exposure ranged from US\$805,075 to \$78,718 net assets and averaged US\$429,871 net assets (calculated on a monthly basis) and, at March 31, 2022, net assets were US\$334,313. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.25 to Cdn\$1.26) 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\$3,343 on an exposure of US\$334,313. The US dollar financial assets generally result from sales to US customers and prepayments to international suppliers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

Interest on our revolving bank loan and term bank loan fluctuates with the prime rate of interest. We entered into an interest rate swap during the year ended March 31, 2018 that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap caused us to reflect an unrealized gain of \$32,685 during the year ended March 31, 2022 and an realized gain of \$28,340 during the year ended March 31, 2021. Fair value gains or losses will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Interest expense on the lease liabilities recognized on adoption of *IFRS-16, Leases*, calculated at 4.45% per annum, was \$106,621 during 2022 and \$116,096 during 2021.

Due to the covid-19 shut-down restrictions our sales were sufficiently reduced in May, June and July 2020 for us to qualify for a Canada Emergency Wage Subsidy of \$204,710. Our sales since then have recovered to levels which no longer qualify us for the subsidy.

Liquidity and Capital Resources

Our operating cash flows were \$1,614,420 during the year ended March 31, 2022, an average of \$134,535 per month, compared to \$408,588 per month during 2021, before accounting for fluctuations in non-cash working capital. At March 31, 2022 we had cash of \$268,070 and working capital of \$1,591,702 compared to cash of \$1,466,071 and working capital of \$1,893,571 at March 31, 2021. The decrease is due to dividends, equipment purchases, and term loan interest and principal payments, offset by operating cash flows.

We resumed our quarterly dividend in March and June 2021 at the increased rate of \$0.02 per share and suspended it for the September and December 2021 quarters to ensure sufficient funds were available for investment in our wet-wipe production equipment. We resumed our quarterly dividend at \$0.005 per share in March 2022. The next dividend is payable on June 21, 2022 to shareholders of record on June 7, 2022. All dividends are eligible dividends for the purposes of the Income Tax Act (Canada) unless indicated otherwise.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency, to re-pay term bank loans and to pay dividends.

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 accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$1,500,000 are not included in the calculation. Substantially all of our assets are pledged as collateral. The amount currently available based on the March 31, 2022 Consolidated

Statement of Financial Position is \$1,365,000. \$86,537 was outstanding under this facility at March 31, 2022.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$400,000 and accounts payable by an additional \$400,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We also have a term loan which was used for the purchase of our binder bonded air-laid paper making machine. Repayment of the loan is in monthly instalments of \$59,524 until August 22, 2023. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of our assets are pledged as collateral.

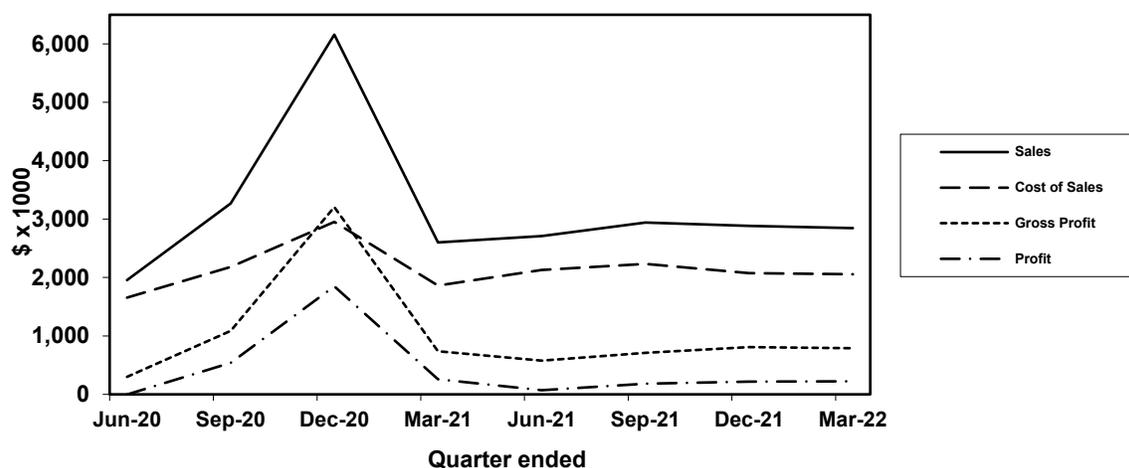
We have covenanted with the bank to maintain our consolidated ratio of current assets to current liabilities at 1.20:1 or higher, our consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and our consolidated ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:1 or higher. We are in compliance with all of these covenants at March 31, 2022 and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with these covenants, and are unable to obtain a waiver from the bank, the loan will become payable on demand.

We intend to spend around \$300,000 for production equipment additions and improvements during the next year, which we will finance from operating cash flows.

Summary of Quarterly Results (Unaudited)

The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards.

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021	Mar 31 2020	Dec 31 2020	Sep 30 2020	Jun 30 2020
Sales	2,845	2,883	2,942	2,708	2,599	6,158	3,268	1,955
Cost of sales	2,056	2,076	2,233	2,130	1,861	2,952	2,182	1,656
Gross profit	789	807	709	578	738	3,206	1,086	299
Selling and distribution expenses	236	234	225	232	187	247	208	186
General and administrative expenses	203	235	207	211	165	333	186	181
Operating profit (loss)	350	338	277	135	386	2,626	692	(68)
Other expenses (income)	39	41	30	31	36	55	(42)	(64)
Profit (loss) before tax	311	297	247	104	350	2,571	734	(4)
Income tax expense (recovery)	88	78	65	34	92	721	196	(1)
Profit (net loss)	223	219	182	70	258	1,850	538	(3)
Earnings (loss) per share, basic and fully diluted - Cdn\$	0.006	0.006	0.005	0.002	0.007	0.052	0.015	(0.000)
Dividends paid per share - Cdn\$	0.005	-	-	0.02	0.02	-	-	-
Sales - % change over previous quarter	-1.3	-2.0	8.6	4.2	-57.8	88.4	67.1	-33.4
Costs, expenses and net income - % of Sales								
Cost of sales	72.3	72.0	75.9	78.6	71.6	47.9	66.8	84.7
Selling and distribution expenses	8.3	8.1	7.6	8.6	7.2	4.0	6.4	9.5
General and administrative expenses	7.1	8.2	7.0	7.8	6.3	5.4	5.7	9.3
Other expenses (income)	1.4	1.4	1.0	1.2	1.4	0.9	(1.3)	(3.3)
Income tax expense	3.1	2.7	2.3	1.2	3.6	11.8	6.0	(0.1)
Profit	7.8	7.6	6.2	2.6	9.9	30.0	16.5	(0.1)



Share Capital

The Company has only one class of share capital, common shares without par value. The Company also has a stock option plan.

	<u>June 17, 2022</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 and on the Company's web-site at www.westbond.ca.