



# **WestBond Enterprises Corporation**

## **Quarterly Report September 30, 2022**

### **Management Discussion and Analysis**

**Dated November 17 2022 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Periods Ended September 30, 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 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 2022 Annual Report. A pdf version of the 2022 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, 2022 and 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. You should also refer to the Management Discussion and Analysis that was included in our 2022 Annual Report. Information included in that discussion is only updated in this discussion. Information that has not changed materially since June 17, 2022, the date of the Management Discussion and Analysis in the 2022 Annual Report, is not repeated here.

Sales were \$2,898,116 for the three months ended September 30, 2022, which is 1.5% lower than for the three months ended September 30, 2021 and 12.7% lower than for the three months ended June 30, 2022. We realized a profit of \$182,923 (\$0.005 per share) for the three months ended September 30, 2022, compared to a profit of \$182,353 (\$0.005 per share) for the same period last year. The decrease in sales is due to a severe shortage of factory workers in the month of July. We lost 25% of our hourly staff, resulting in significant order backlogs. This labour shortage has improved in quarter three of this fiscal year, and we expect shipments to resume on an increasing trend.

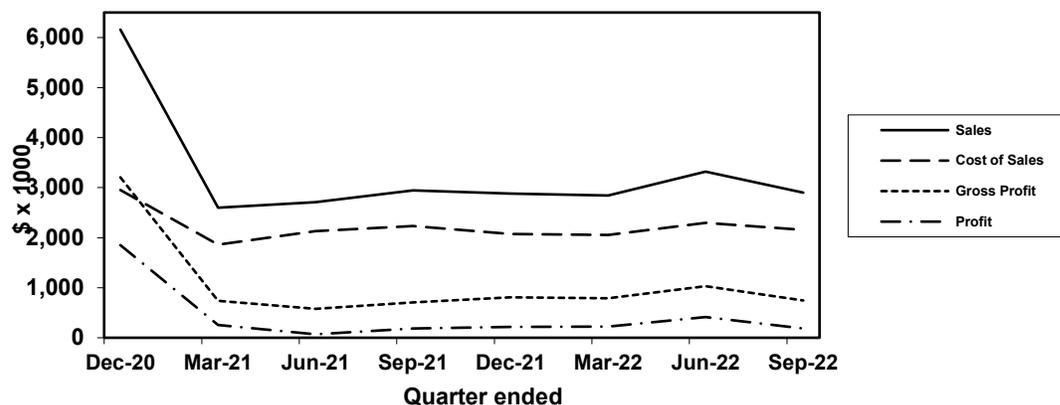
## Summary of Quarterly Results

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							
	Sept 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	Jun 30 2021	Mar 30 2021	Dec 31 2020
Sales	2,898	3,321	2,845	2,883	2,942	2,708	2,599	6,158
Cost of Sales	2,156	2,293	2,056	2,076	2,233	2,130	1,861	2,952
Gross Profit	742	1,028	789	807	709	578	738	3,206
Selling and distribution expenses	251	255	236	234	225	232	187	247
General and administrative expenses	202	196	203	235	207	211	165	333
Operating profit	289	577	350	338	277	135	386	2,626
Other expenses	37	11	39	41	30	31	36	55
Profit before Tax	252	566	311	297	247	104	350	2,571
Income Tax Expense	69	152	88	79	65	34	92	721
Profit	183	414	223	218	182	70	258	1,850
Earnings per share, basic and diluted-Cdn\$	0.005	0.012	0.006	0.006	0.005	0.002	0.007	0.052
Dividends paid per share - Cdn\$	0.005	0.005	0.005	-	-	0.02	0.02	-
<b>Sales % change over previous quarter</b>	<b>-12.70</b>	<b>16.80</b>	<b>-1.30</b>	<b>-2.00</b>	<b>8.60</b>	<b>4.20</b>	<b>-57.80</b>	<b>88.40</b>

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

Cost of Sales	74.4	69.0	72.3	72.0	75.9	78.7	71.6	47.9
Selling and distribution expenses	8.6	7.7	8.3	8.1	7.6	8.6	7.2	4.0
General and administrative expenses	7.0	5.9	7.1	8.2	7.0	7.8	6.3	5.4
Other expenses	1.3	0.3	1.4	1.4	1.0	1.2	1.4	0.9
Income Tax Expense	2.4	4.6	3.1	2.7	2.2	1.2	3.6	11.7
Net profit	6.3	12.5	7.8	7.6	6.2	2.6	9.9	30.0



## Sales

Sales for the three months ended September 30, 2022 were 1.5% lower than for the same period last year and 12.7% lower than the previous quarter, ended June 30, 2022. 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 increased for our personal hygiene products, which are used in away from home locations. Clinical products demand is starting to rebound. Dry wipes demand has been steady in the past four quarters, with a slight decrease in the current quarter. 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. Sales for non-wipe air laid products, which primarily end up in restaurants, fell in the quarter ending September 30, 2022. In the quarter ending September 30, 2022, we continue to have difficulty attracting quality labour, which limits our ability to meet the high demand for our products. With the improving business environment, and our ability to hire additional workers, we should mitigate these challenges.

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 do 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.

Sales	Three Months ended		Change over last year	Six Months ended		Change over last year
	September 30			September 30		
	2022	2021		2022	2021	
Product Line	\$	\$		\$	\$	
Personal Hygiene	727,671	633,868	14.8%	1,196,811	1,237,612	-3.3%
Clinical	265,522	405,541	-34.5%	652,319	878,453	-25.7%
Wipes	425,917	378,979	12.4%	910,073	858,623	6.0%
Non-clinical air laid products	1,476,674	1,488,403	-0.8%	3,452,316	2,622,367	31.6%
Other	2,332	35,506	-93.4%	8,015	53,733	-85.1%
	<u>2,898,116</u>	<u>2,942,297</u>	<u>-1.5%</u>	<u>6,219,534</u>	<u>5,650,788</u>	<u>10.1%</u>

## Cost of Sales

Materials costs, as a percentage of sales, is lower in 2022 than in 2021. This is in part due to the lower inventory costs that we could negotiate with our suppliers. Production labour dropped due to improved efficiencies, offset by a general wage rate increase for most production employees. Factory overhead labour decreased due to the retirement of the plant manager, whose duties were spread amongst other personnel. Fixed overhead is higher in 2022 due to a general increase in costs due to inflation. Depreciation increased slightly in 2022 as additional fixed assets were put into operation offset by the decrease in book value of the assets, as a normal accounting process.

**Cost of Sales**

	<u>Three Months ended September 30</u>		<u>Six Months ended September 30</u>	
	<u>% of Sales</u>			
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Materials	45.7%	46.6%	44.2%	47.5%
Production labour	7.6%	9.2%	7.4%	9.2%
Factory overhead labour	4.0%	4.3%	3.8%	4.4%
Variable overhead	5.2%	5.1%	5.2%	5.2%
Fixed overhead	2.5%	2.2%	2.3%	2.0%
Depreciation of plant equipment	7.1%	6.3%	6.5%	6.6%
Depreciation of right of use assets	2.2%	2.2%	2.1%	2.3%
Gross Profit	25.6%	24.1%	28.5%	22.8%

***Selling and Distribution Expenses***

Selling and distribution expenses during the three months ended September 30, 2022 were 8.2% of sales, compared to 7.6% for the three months ended September 30, 2021, The shipping costs are significantly higher in the current quarter because of unprecedented increases on trucking costs.

***General and Administrative Expenses***

Administrative and office expenses were lower in the three months ended September 30, 2022 than in 2021 due to a staff member on maternity leave, resulting in lower payroll expense, offset by higher cost in almost every expense in this category. The higher costs are mainly due to general increase in doing business.

During the six months ended September 30, 2022 the company incurred total short-term employee benefits of \$201,595 (2021 – \$226,710) to its key management personnel, comprising the directors and officers of the company, and incurred \$9,796 (2021 – \$4,280) 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 \$5,128 loss during the three months ended September 30, 2022, compared with a \$5,734 gain in the same period last year. Interest expense on bank loans and lease liabilities is lower in 2022 than 2021 because of lower principal balances. We recognized an unrealized gain of \$477 to reflect the market value fluctuation of our interest rate swap during the three months ended September 30, 2022. 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 \$1,551,550 during the six months ended September 30, 2022, an average of \$258,592 per month, compared to an average of \$134,535 per month during the year ended March 31, 2022. The increase is from increased sales and margins. We had working capital of \$1,631,500 at September 30, 2022, compared to \$1,591,702 at March 31, 2022. The change is due to positive operating cash flows, inventory and prepaid expenses offset by increased accounts payable, equipment purchases, term loan and interest payments, lease principal and interest payments and dividends paid.

We paid our quarterly dividend in June and September 2022 at the rate of \$0.005 per share. We intend to spend around \$300,000 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, 2022, is \$1,359,000. 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. Nil (\$0) was outstanding under the revolving bank loan facility at September 30, 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 \$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, 2022 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. When the loan is repaid, any unrealized gain or loss will be eliminated. At September 30, 2022 we had an unrealized gain of \$1,546 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 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](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://www.westbond.ca).