



WestBond Enterprises Corporation

Quarterly Report September 30, 2023

Management Discussion and Analysis

Dated November 22, 2023 to Accompany the Interim Consolidated Financial Statements for the Three and Six Month Period Ended September 30, 2023

Caution Regarding Forward Looking Statements – There are many risk factors and uncertainties that may affect the company’s actual results, performance, achievements, or developments. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and the company cannot assure investors that actual results, performance, achievements, or developments that the company anticipates will be realized. Forward-looking statements are based on the beliefs of management and reflect management’s current plans, expectations, estimates, projections, beliefs and opinions and the company does not undertake any obligation to update forward-looking statements should the assumptions related to these expectations, plans, estimates, projections, beliefs, and opinions change, except as required by law. The forward-looking statements contained in this MD&A speak only as of the date of this MD&A.

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 2023 Annual Report. A pdf version of the 2023 Annual Report may be downloaded from our web site at www.westbond.ca or from the SEDAR web site at 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 period ended September 30, 2023 and our consolidated financial statements for the year ended March 31, 2023 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 2023 Annual Report. Information included in that discussion is only updated in this discussion. Information that has not changed materially since June 29, 2023, the date of the Management Discussion and Analysis in the 2023 Annual Report, is not repeated here.

Sales were \$2,718,170 for the three months ended September 30, 2023, which is 14.8% higher than the three months ended June 30, 2023 (6.2% lower than the three month period ending June 30, 2022). We realized a profit of \$74,763 (\$0.002 per share) for the three months ended September 30, 2023 compared to a loss of \$69,394 for the three months ended June 30, 2023. For the same three month period ending June 30, 2022, profits were \$182,923 (\$0.005 per share). The increase in profits compared to last quarter ending June 30, 2023 was a result of filling vacant production positions and filling orders faster. The decrease in profits compared to the quarter ending June 30, 2022 was due to decreased sales in air laid parent rolls. The table and graph on the next page show the trends over the past eight quarters.

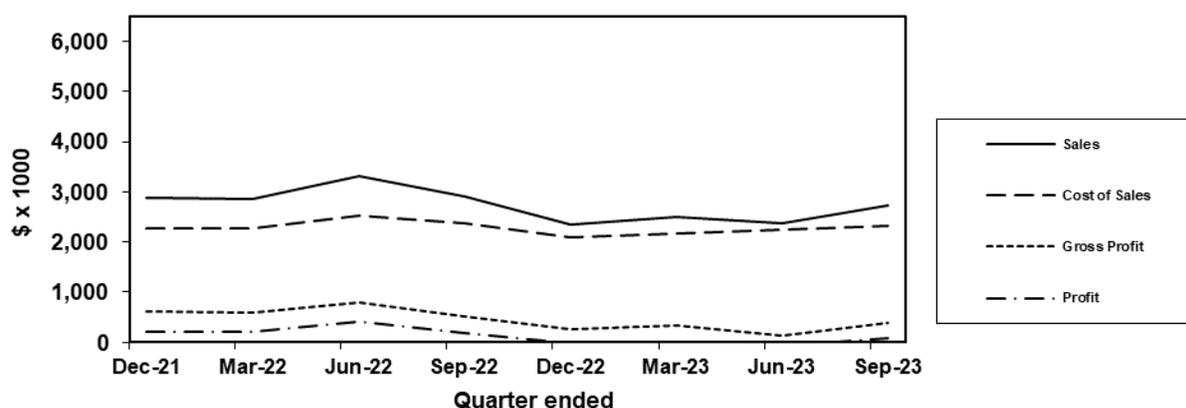
Summary of Quarterly Results

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 2023 | Jun 30 2023 | Mar 31 2023 | Dec 31 2022 | Sept 30 2022 | Jun 30 2022 | Mar 31 2022 | Dec 31 2021 |
| Sales | 2,718 | 2,367 | 2,510 | 2,360 | 2,898 | 3,321 | 2,845 | 2,883 |
| Cost of Sales | 2,322 | 2,237 | 2,166 | 2,100 | 2,372 | 2,513 | 2,264 | 2,276 |
| Gross Profit | 396 | 130 | 344 | 260 | 526 | 808 | 581 | 607 |
| Selling and distribution expenses | 46 | 44 | 39 | 40 | 35 | 34 | 28 | 33 |
| General and administrative expenses | 201 | 149 | 269 | 193 | 202 | 196 | 203 | 235 |
| Operating profit | 149 | (63) | 36 | 27 | 289 | 578 | 350 | 339 |
| Other expenses | 46 | 31 | 2 | 45 | 37 | 11 | 39 | 41 |
| Profit before Tax | 103 | (94) | 34 | (18) | 252 | 567 | 311 | 298 |
| Income Tax Expense | 28 | (25) | 40 | 1 | 69 | 152 | 88 | 79 |
| Profit | 75 | (69) | (6) | (19) | 183 | 415 | 223 | 219 |
| Earnings per share, basic and diluted-Cdn\$ | 0.002 | (0.002) | 0.000 | (0.001) | 0.005 | 0.012 | 0.006 | 0.006 |
| Dividends paid per share - Cdn\$ | - | - | - | - | 0.005 | 0.005 | 0.005 | - |
| Sales % change over previous quarter | 14.80 | -5.70 | 6.40 | -18.60 | -12.70 | 16.80 | -1.30 | -2.00 |

Costs, expenses and net income - % of Sales

| | | | | | | | | |
|-------------------------------------|------|------|------|------|------|------|------|------|
| Cost of Sales | 85.4 | 94.5 | 86.3 | 89.1 | 81.8 | 75.7 | 79.6 | 79.0 |
| Selling and distribution expenses | 1.7 | 1.9 | 1.5 | 1.7 | 1.2 | 1.0 | 1.0 | 1.1 |
| General and administrative expenses | 7.4 | 6.3 | 10.7 | 8.2 | 7.0 | 5.9 | 7.1 | 8.2 |
| Other expenses | 1.7 | 1.3 | 0.1 | 1.9 | 1.3 | 0.3 | 1.4 | 1.4 |
| Income Tax Expense | 1.0 | -1.1 | 1.6 | 0.0 | 2.4 | 4.6 | 3.1 | 2.7 |
| Net profit | 2.8 | -2.9 | -0.2 | -0.8 | 6.3 | 12.5 | 7.8 | 7.6 |



Sales

Sales for the three months ended September 30, 2023 were 14.8% higher than the previous quarter ended June 30, 2023 and 6.2% lower than the same period last year. Compared to the same period last year, the decrease in both sales and profitability are mainly due to the decrease in sales of airlaid parent rolls. This is because one of our customers had a change in ownership and ceased purchasing from us. With the decrease in parent roll sales, we now focus on developing additional end user markets which yield higher profit margins. With the return to full production staff levels, sales and profitability have improved. Compared to the quarter ended March 31, 2023, and the quarter ended December 31, 2022, sales have increased for our personal hygiene, clinical, and wipes product categories. Sales of personal hygiene products decreased by 6%, while sales of non-clinical air laid parent rolls increased by 56% when compared to the previous quarter.

We are now supplying air laid napkins to a major, high profile national restaurant chain with a customized product. Additionally, major American restaurant supply distributors have placed trial orders for our airlaid napkins. Demand for our products remain high. With improved staffing, we have been able to reduce our backlog of unshipped orders. With the return to full production staff levels in this quarter, sales and profitability have improved when compared with the quarter ended June 30, 2023.

| Sales | Three Months ended | | Change over last year | Six Months ended | | Change over last year |
|--------------------------------|--------------------|------------------|-----------------------------|------------------|------------------|-----------------------------|
| | September 30 | | | September 30 | | |
| | 2023 | 2022 | | 2023 | 2022 | |
| <u>Product Line</u> | \$ | \$ | | \$ | \$ | |
| Personal Hygiene | 647,458 | 727,671 | -11.0% | 1,337,489 | 1,196,811 | 11.8% |
| Clinical | 434,934 | 265,522 | 63.8% | 935,967 | 652,319 | 43.5% |
| Wipes | 659,593 | 425,917 | 54.9% | 1,156,916 | 910,073 | 27.1% |
| Non-clinical air laid products | 966,286 | 1,476,674 | -34.6% | 1,584,710 | 3,452,316 | -54.1% |
| Other | 9,899 | 2,332 | 324.4% | 69,926 | 8,015 | 772.4% |
| | <u>2,718,170</u> | <u>2,898,116</u> | <u>-6.2%</u> | <u>5,085,008</u> | <u>6,219,534</u> | <u>-18.2%</u> |

Cost of Sales

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 higher in the quarter ended September 30, 2023 than in the quarter ended September 30, 2022 as a percentage of sales due to higher costs of raw materials compared to the previous year. Compared to the same quarter in 2022, production labour costs increased because of a general wage rate increase for most production employees and overtime pay made necessary to fill backlogged orders. Compared to the previous quarter, factory overhead labour costs decreased slightly. The increase in warehouse and training wages and benefits, and other training costs were offset by the decrease in maintenance and factory supervisor wages and benefits. The general increase in variable overhead is due to higher costs in factory overhead supplies and utility charges, offset by lower costs relating to purchase of maintenance parts. Shipping cost has been increasing steadily over the last four quarters, largely due to increasing sales. As recommended by our external auditors, the shipping costs that were reported as selling and distribution expenses in the previous fiscal year, are now reported as cost of sales. Depreciation increased in 2023 as more assets were put into service.

| Cost of Sales | Three Months ended September 30 | | Six Months ended September 30 | |
|-------------------------------------|---------------------------------|-------|-------------------------------|-------|
| | % of Sales | | | |
| | 2023 | 2022 | 2023 | 2022 |
| Materials | 44.3% | 42.9% | 46.1% | 44.2% |
| Production labour | 9.5% | 7.3% | 10.3% | 7.4% |
| Factory overhead labour | 4.5% | 3.6% | 4.8% | 3.8% |
| Variable overhead | 4.3% | 5.2% | 4.6% | 5.2% |
| Fixed overhead | 2.9% | 2.2% | 3.1% | 2.3% |
| Shipping | 8.5% | 6.7% | 8.6% | 7.0% |
| Depreciation of plant equipment | 9.2% | 6.0% | 9.6% | 6.5% |
| Depreciation of right of use assets | 2.4% | 1.9% | 2.5% | 2.1% |
| Gross Profit | 14.6% | 24.3% | 10.4% | 21.5% |

Selling and Distribution Expenses

Selling and distribution expenses during the three months ended September 30, 2023 were 1.7% of sales, compared to 1.2% for the three months ended September 30, 2022. The percentage cost in 2023 was higher due to an increase in sales commission, and shipping wages. As recommended by our external auditors, the shipping costs that were previously reported in this category are now reported as cost of sales.

General and Administrative Expenses

Administrative and office expenses are higher in the three months ended September 30, 2023 than in the quarter ended June 30, 2023 due to the reversal of the expected credit loss adjustment made on March 31, 2023. We have received payments for the adjustment created at March 31, 2023. The increase in administrative and office expenses and professional fees are offset by decrease in salaries and benefits due to vacations taken in this quarter.

During the six months ended September 30, 2023 the company incurred total short-term employee benefits of \$186,920 (2022 – \$201,595) to its key management personnel, comprising the directors and officers of the company, and incurred \$11,590 (2022 – \$9,796) 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 \$9,273 loss during the three months ended September 30, 2023, compared with a \$5,128 loss in the same period last year. Compared to the previous quarter, interest expense on bank loans is higher because of a balance on the revolving bank loan. Interest on lease liabilities is lower in 2023 than 2022 because of a lower principal balance.

Liquidity, Financial Position and Capital Resources

Our operating cash flows, before accounting for fluctuations in non-cash working capital were \$487,291 during the six months ended September 30, 2023, an average of \$81,215 per month, compared to an average of \$181,109 per month during the year ended March 31, 2023. The decrease is a result of lower sales for the period. We had working capital of \$1,747,007 at September 30, 2023, compared to \$1,606,819 at March 31, 2023. The change is due to increased inventory, trade and other receivables, cash and cash equivalents, and revolving bank loan, offset by decreased prepaid expenses, term bank loans, and trade and tax payables.

We intend to spend around \$300,000 on production equipment additions and improvements 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, 2023, is \$1,500,000. 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. \$780,000 was outstanding under the revolving bank loan facility at September 30, 2023.

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. Accounts payable can also fluctuate by as much as \$400,000. 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 had a term loan credit facility which was used for the purchase of our binder bonded air laid paper making machine. The final payment of the balance of principal was made on August 31, 2023. This loan is now fully repaid.

At September 30, 2023 we are in compliance with all of our covenants to the bank regarding the revolving bank loan 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 revolving bank loan will become payable on demand.

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 22, 2023</u> |
|--|--------------------------|
| Authorized common shares without par value | Unlimited |
| Issued common shares | 35,625,800 |
| Shares issuable on exercise of outstanding stock options | 960,000 |
| Shares available for future stock option grants | 2,602,580 |

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company.

Changes in accounting policies including first-time adoption

The company notes that there is a change in the classification of "Shipping" costs in our financial reports starting in quarter ended June 30, 2023. Upon our external auditor's recommendation, we have added shipping costs to the Cost of sales category and removed it from Selling and distribution expenses category. For equitable comparison in this report, we have adjusted all numbers reported in previous periods to reflect this change.

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.