WestBond Enterprises Corporation

2005 Annual Report

Management Discussion and Analysis

and

Consolidated Financial Statements

WestBond Enterprises Corporation

Management Discussion and Analysis

dated July 15, 2005, to accompany the consolidated financial statements for the year ended March 31, 2005

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, US$/Cdn$ 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 converter that supplies disposable paper products to many market segments. Our sales volumes continue to increase significantly, almost doubling in the past 5 years. We initially grew to become one of Canada's leading manufacturers of medical disposables. In 1998 we expanded into products for use on airplanes and, in 2002, we again 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, dental bibs, 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. In addition to these two large markets, we also produce patient wipes and underlays for long-term care facilities (nursing homes), and airline towels and pillowcases.

Our goal 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 or 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 product to these customers' specifications. Our current focus for expansion in this market is Canada and western USA. We will also pursue opportunities to supply these products directly to smaller hotel, motel and restaurant chains.

We are now finishing the installation of the last of the machines that permit us to provide a comprehensive personal hygiene paper product line. We will need to hire and train more machine operators and will then be in a position to increase our marketing efforts aggressively. We expect a significant increase in sales of our personal hygiene products over the next several months, and years.

We also aim to maintain, or modestly increase, our sales of clinical and long-term care products. In addition, we are approaching various airlines to resume sales of our airline products.

Personal Hygiene Products – WestBond started this product line during 2002. The decision by management to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing medical distributors who wanted to increase their purchasing ability with the Company. We evaluated this potential and determined that the medical industry had 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. We have made major capital expenditures to manufacture this product line, which we expect will soon surpass sales volumes to the health care industry.

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a limited line of table napkins. We manufacture these products in 1 and 2 ply formats. We sell these products to Canadian and U.S. 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, dentists, 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.

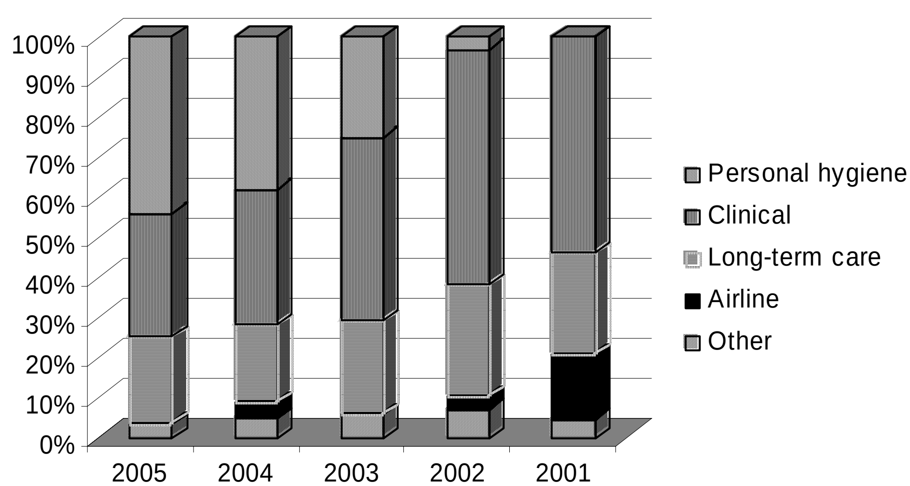
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. In the past 5 years, sales in this area have increased to the point that we now dedicate two entire production lines to these items. The products include patient wipes, mitts and underlays. All products are made with very high quality air laid paper which results in very soft, very 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 Company's Bio-Mitt Plus is a key product to this mix. Bio-Mitt Plus combines the wiping ability of an air laid wipe with a built-in waterproof mitten that protects the hand from contamination. The long-term care market is growing tremendously and we continue to develop new products for major Canadian and U.S. distributors.

These three product groups represent WestBond's ability to adapt to market demands and develop product lines to satisfy these markets. Another market that WestBond supplies is the airline industry. We produce in-flight paper disposables such as pillowcases, lavatory hand towels and bathroom tissue.

The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2001 through 2005.

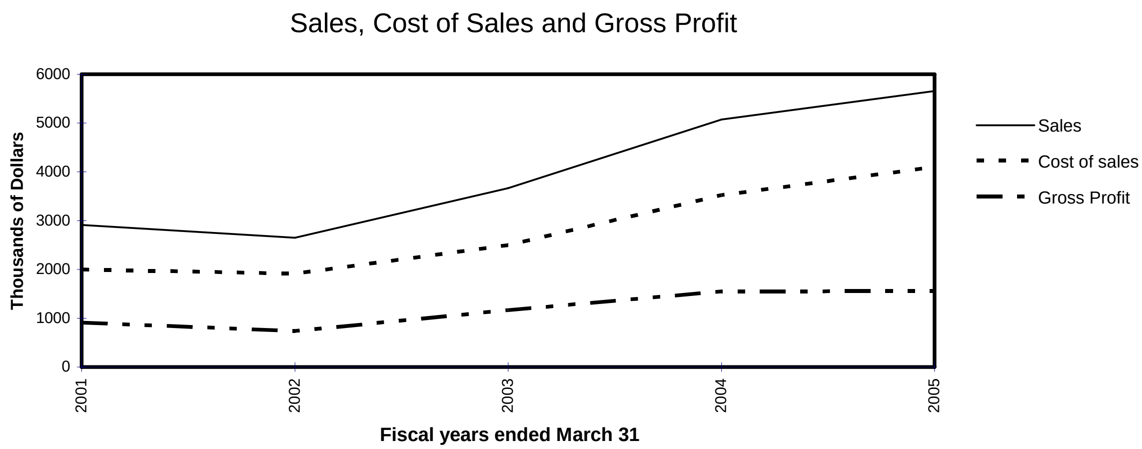


Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2005 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.

Our net income for the year ended March 31, 2005 was $216,298, which is 21% less than for the year ended March 31, 2004. The less profitable results for 2005 are due mainly to a lower gross profit margin.

Our gross profit margin realized during 2005 was 28%, compared to 31% for 2004. Over the last five years, our gross profit margin has ranged from 28% to 32%, and averaged 30%. We expect that recent sales price increases for our products and more stable paper supply costs will improve our gross profit margins for the 2006 and subsequent fiscal years.



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 Canadian generally accepted accounting principles. The prior periods have been restated to reflect a new accounting policy adopted during the current year, as described below under "New Accounting Policy".

	Years ended March 31,					
Operating Results	**2005**		**2004**		**2003**	
	$	**% of sales**	**$ restated**	**% of sales**	**$ restated**	**% of sales**
Sales	5,652,270	100.0	5,069,320	100.0	3,663,261	100.0
Cost of sales	4,097,693	72.5	3,518,808	69.4	2,497,416	68.2
Gross profit	1,554,577	27.5	1,550,512	30.6	1,165,845	31.8
Selling and marketing expenses	486,300	8.6	443,587	8.8	288,629	7.9
General and administrative expenses	696,268	12.3	657,581	12.9	578,167	15.7
Net income before tax	372,009	6.6	449,344	8.9	299,049	8.2
Income tax expense	155,711	2.8	175,876	3.5	115,939	3.2
Net income	216,298	3.8	273,468	5.4	183,110	5.0
Net income per share, basic and diluted	0.02		0.03		0.02	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	**March 31,** **2005** **$**	**2004** **$**	**2003** **$**
Current assets	1,677,379	1,306,768	1,109,307
Other assets	2,350,018	2,138,389	1,460,028
Total assets	4,027,397	3,445,157	2,569,335
Current liabilities	1,267,228	1,032,775	887,136
Long-term liabilities	661,131	664,254	261,618
Shareholders' equity	2,099,038	1,748,128	1,420,581

Sales

Sales were $5,652,270 for the year ended March 31, 2005. This represents an 11.5% increase over the year ended March 31, 2004. The increased sales are attributable mainly to the personal hygiene and long-term care products.

The table below summarizes the sales of the Company for the last five fiscal years.

	2005 $	2004 $	2003 $	2002 $	2001 $
Personal hygiene products	2,484,051	1,928,733	918,877	84,726	-
Clinical products	1,733,599	1,709,997	1,665,870	1,552,503	1,567,805
Long-term care products	1,223,751	977,938	860,593	736,412	735,836
Airline products	24,468	209,334	1,740	86,132	471,124
Other products	186,401	243,318	216,181	191,639	135,497
Total sales	5,652,270	5,069,320	3,663,261	2,651,412	2,910,262
Change over previous year	11.5%	38.4%	38.2%	-9.0%	5.5%

We saw growth in all three of the major product categories during the year ended March 31, 2005. The growth is caused by increased sales volumes, new customers and new products. We increased our prices at the end of the 2005 fiscal year; however, the effect of the increases will not be seen until the 2006 fiscal year.

Sales of personal hygiene products during 2005 were 29% higher than 2004. This growth was driven by new customers and increased demand from established customers. We purchased a second jumbo roll winder during 2004 to accommodate the demand for jumbo roll products. We purchased a toilet paper winder in 2003 to add conventional size toilet paper rolls to our personal hygiene product line. Start-up of this machine, which we had slated for August 2004, was delayed until March 2005. We delayed the start-up to install the second jumbo roll winder and to refurbish and modernize the conventional roll winder. We have also purchased single-fold and multi-fold hand towel machines. The single-fold was started up during 2005 and the multi-fold is nearing completion now. These machines complete our product line offering for this market. We expect that sales will increase gradually by up to $150,000 per month as a result.

Sales volumes of clinical and long-term care products also improved in 2005 over 2004. We expect slight improvements in these product sales during the 2006 fiscal year as well. We continue to identify new markets and design custom products to meet customer demands.

The airline products were sold primarily to Canadian Airlines International during 2001 and 2002. Air Canada chose not to renew this contract after it took control of Canadian; however, we sold lavatory hand towels to them on a temporary basis during 2004. We are approaching smaller US and Canadian based airlines and charterers in attempt to resume sales of these products.

The recent fluctuations in the US and Canadian dollar exchange rate have had a negative effect on our sales figures. This effect has been offset by a corresponding reduction in the cost of paper purchased from the United States. Generally, our US dollar paper purchases are higher than our US dollar sales volumes. As a result, increases in the value of the Canadian dollar, as compared to the US dollar, tend to increase our profit margins.

Cost of Sales

The following table shows the components of cost of sales. During the fiscal year ended March 31, 2005, cost of sales was 72.5% of sales, as compared to 69.4% in 2004, 68.2% in 2003, 72.2% in 2002 and 68.7% in 2001. The 2004 and 2003 fiscal years have been restated to reflect a new accounting policy adopted during the current year, as described below under “New Accounting Policy”.

	2005	2004 (restated)	2003 (restated)	2002	2001
	$	$	$	$	$
Materials	2,989,137	2,627,649	1,800,893	1,322,128	1,415,499
Labour	433,963	395,811	287,115	216,142	247,500
Variable overhead	296,980	180,388	147,096	134,622	110,272
Fixed overhead	244,038	205,765	167,043	158,022	156,065
Depreciation	133,575	109,195	95,269	82,949	69,688
Total cost of sales	4,097,693	3,518,808	2,497,416	1,913,863	1,999,024

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. Over the last five years, materials costs averaged 50.9% of sales, and ranged from 48.6% in the 2001 fiscal year to 52.9% in the current fiscal year, depending on the product mix. Personal hygiene products and examination table paper have a high materials component and a low labour component. By comparison, gowns, drapes, mitts, sheets and pillowcases have a higher labour component and a relatively lower materials component. Also, our margins are lower for the personal hygiene products, where most of the recent growth occurred, than for the other product lines.

Materials prices increased moderately during the 2005 fiscal year. We did not increase prices to our customers during the year to compensate until late in the fiscal year as we felt that it was more important to continue expanding our customer base. As a result, our gross margins suffered slightly, as a percentage of sales.

Paper prices, our most significant materials cost, were quite erratic during the year ended March 31, 2005. Exchange rate fluctuations; however, generally worked in our favour to offset some of the higher US dollar prices. Paper prices seem to be settling down now and, on average, appear to have increased by less than 3% over prior years. In some cases, the paper price is reduced by up to 10% over prior years. While we do not forecast any further paper price increases for our 2006 fiscal year, our prices to our customers have been set to allow for paper cost increases of up to 10%. Some paper cost reductions were realized during the years ended March 31, 2004 and 2003, both as a result of devaluations of the US dollar and to good pricing received on some types of paper. During 2002, paper purchased from the United States was more expensive due to a weakened Canadian dollar.

We had difficulty obtaining paper supplies from October to December 2004 because of a shortage in supply and estimate we lost $200,000 in sales as a result. While there is currently no paper shortage, this is a common cycle in this industry that occurs every few years. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply in the future; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Labour in cost of sales averaged 7.9% of sales over the last five years, and improved steadily from 8.5% in the 2001 fiscal year to 7.7% in 2005. The improvement is due to production efficiencies and to changes in the product mix. We expect further efficiencies can still be realized in the future from longer production runs and from planned improvements to the factory equipment.

We need to hire more skilled labour to operate the additional new machinery for the expanded personal hygiene product line. The current labour market near our factory is tight and it appears it may take a few months to find and train sufficient new machine operators. If we are unable to hire sufficient machine operators, we will not be able to produce the additional products for sale.

Variable overhead normally fluctuates slightly from one period to the next. Continuing increased scheduled maintenance activities account for almost all of the increases in variable overhead from one year to the next. These activities have improved production efficiencies and we plan to continue them. We have rented an additional warehouse for much of our raw materials inventory. Costs to transport the materials from the warehouse to the factory increased our variable costs by $13,000 in 2005, which is expected to continue.

Higher rent added $24,045 to fixed overhead in 2005 over 2004, $27,101 in 2004 over 2003, and $6,852 in 2003 over 2002 and 2001. A scheduled rent increase went into effect in July 2003 and we also rented additional warehouse space, which increased fixed overhead for 2004 and later years. We expect rent to be $50,000 higher in 2006 over 2005 because of the additional warehouse. Other fluctuations in fixed overhead are due to differences in insurance premiums, which increased by $14,345 in 2005 over 2004 and $11,636 in 2004 over 2003. Insurance rates have now improved and we expect the expense to decrease by $8,900 in 2006 from 2005. Increases in depreciation expense are the result of bringing new equipment into use.

Selling Expenses

Shipping costs are higher in 2005 than in 2004 as a result of the Company paying freight for more customers, higher freight rates and fuel surcharges and greater shipping distances. Sales commissions decreased slightly, as a percentage of sales, because most of the increase in sales was to customers that the Company deals with directly, rather than through commissioned sales agents.

General and Administrative Expenses

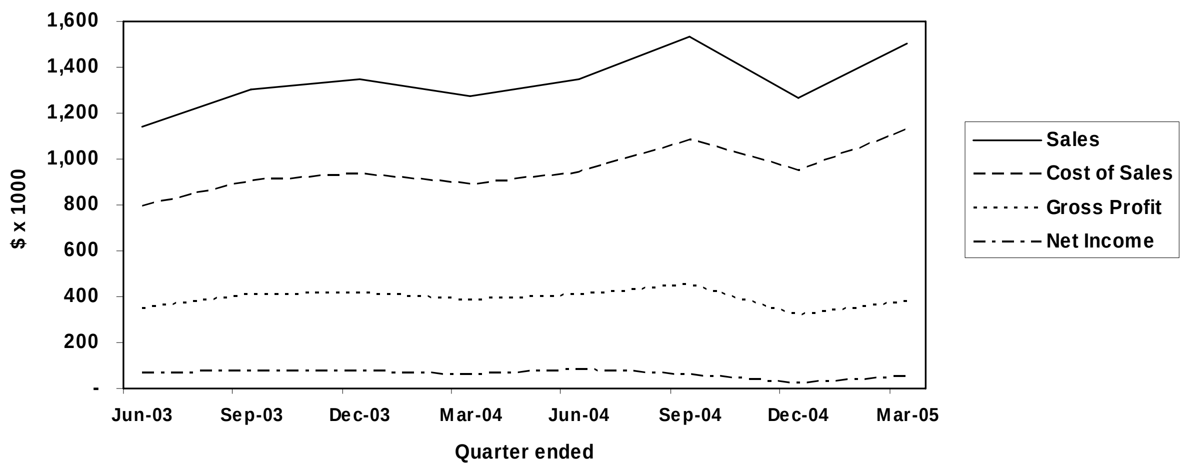
All categories of general and administrative expenses were higher in 2005 than 2004, with the exception of corporate promotion, which remain the same, and interest on long-term debt which decreased because long-term debt has decreased. Administration and office expenses increased because of increased bank charges and car allowances and reduced foreign exchange gains. Interest on other debt was higher due to higher average bank indebtedness. Professional fees were high in 2005 because of legal fees related to the transition of the Company to the new *Business Corporations Act* (British Columbia). Higher administrative salaries and benefits in 2005 are due to increased stock option expense.

Our professional fees during the year ended March 31, 2005 include $22,168 paid to McCullough O'Connor Irwin, a law firm in which J. Douglas Seppala, one of our directors, was a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties.

Summary of Quarterly Results (Unaudited)

	Quarters ended			
	March 31, 2005 $	**Dec. 31, 2004 $**	**Sept. 30, 2004 $**	**June 30, 2004 $**
Sales	1,502,576	1,268,752	1,533,592	1,347,350
Cost of sales	1,124,346	947,611	1,084,758	940,978
Gross profit	378,230	321,141	448,834	406,372
Selling and marketing expenses	120,791	107,655	138,003	119,851
General and administrative expenses	168,918	164,201	205,082	158,067
Net income before tax	88,521	49,285	105,749	128,454
Income tax expense	37,861	24,458	46,028	47,364
Net income	50,660	24,827	59,721	81,090
Net income per share, basic and diluted	0.005	0.002	0.006	0.008

	Quarters ended			
	March 31, 2004 $ restated	Dec. 31, 2003 $ restated	Sept. 30, 2003 $ restated	June 30, 2003 $ Restated
Sales	1,273,917	1,349,691	1,305,502	1,140,210
Cost of sales	888,186	937,095	901,930	791,597
Gross profit	385,731	412,596	403,572	348,613
Selling and marketing expenses	116,888	123,061	111,689	91,949
General and administrative expenses	167,947	170,618	171,655	147,361
Net income before tax	100,896	118,917	120,228	109,303
Income tax expense	39,491	47,485	45,788	43,112
Net income	61,405	71,432	74,440	66,191
Net income per share, basic and diluted	0.006	0.007	0.008	0.007



The quarters ended during the fiscal year ended March 31, 2004 have been restated to reflect a new accounting policy adopted during the current year, as described below under “New Accounting Policy”.

Our quarterly sales trend shows increases each period, with the exception of the quarter ended March 31, 2004 and the quarter ended December 31, 2004. The increases in sales are, for the most part, due to higher volumes in all product categories, and most significantly in the personal hygiene product line. The decrease during the quarter ended March 31, 2004 was caused by medical product line customers placing larger orders at the end of the previous quarter and at the beginning of the following quarter, causing the two quarters on either side to be relatively higher. These anomalies occur occasionally and are not a cause for concern. The decrease during the quarter ended December 31, 2004 was caused by a shortage of paper and, to a lesser extent, price competition. We were unable to purchase sufficient paper to fill customer orders during the quarter and lost approximately $200,000 in sales as a result. Our sales for the first quarter of the 2006 fiscal year are approximately $1.6 million.

Slight variations in cost of sales, as a percentage of sales, occur on a regular basis. These are caused by fluctuations in the product mix, production efficiencies and prices for raw materials. Selling and marketing expenses are trending upwards, as a percentage of sales, due to increasing freight costs. General and administrative expenses are also increasing, but at a much lower rate than sales.

Liquidity and Capital Resources

Our operating cash flows were $585,660 during the year ended March 31, 2005, an average of $48,805 per month, compared to $51,024 per month during 2004, before accounting for fluctuations in non-cash working capital. Operating cash flow for the year ending March 31, 2006 will not benefit to the same extent as in 2005 from future income tax charges. Now that we have substantially used up our non-capital losses from previous years, we actually have to pay a portion of our income tax on a current basis. We still expect a benefit of around $100,000 for 2006 from tax depreciation allowed in excess of depreciation reflected on the financial statements.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency and to pay off bank debt. The total principal outstanding on term loans was $512,481 at March 31, 2005. Principal repayments are $12,501 per month.

We have a revolving bank loan facility of $650,000, of which $424,217 was used at March 31, 2005. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US 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 $500,000 are not included in the calculation.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as $150,000 and accounts payable by an additional $150,000. 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. Accounts receivable and accounts payable levels have increased overall in 2005 as a result of higher sales and production volumes. Additionally, we have increased our levels of raw paper inventory to try to avoid future paper shortages.

Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility and the term loans.

We currently plan to spend approximately $200,000 on equipment expansions and improvements during the year ending March 31, 2006. We will finance these additions from operating cash flows. We may acquire additional equipment, if worthy new product opportunities arise. Financing for additional equipment would be available through operating cash flow and additional term loans.

Our current equipment has the capacity to produce approximately 1,200,000 cases of product annually, which would sell for about $30,000,000. By comparison, we produced 210,000 cases during the year ended March 31, 2005, which represents 17.5% of current capacity. We would have to increase our warehouse space to accommodate the additional inventory required to support such volumes. At year-end, the Company had 24 full-time employees and 4 part-time employees. Employment levels will increase as sales and production volumes increase.

Share Capital

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

	Amount at July 15, 2005
Authorized common shares	unlimited
Issued common shares	10,003,800
Shares issuable on exercise of outstanding stock options	1,420,000
Shares available for future stock option grants	580,000

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 2,000,000.

The shareholder rights plan (the "Plan") is meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until April 29, 2006. The Plan, in effect, allows holders of common shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction not approved by the board of directors of the Company. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over bid circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

New Accounting Policy

Stock Options

Effective April 1, 2004, the Company adopted the fair value based method of accounting for stock options granted to employees and directors after March 31, 2002. Previously, the Company did not recognize compensation expense for stock options granted to employees and directors.

This change in accounting policy has been applied retroactively; accordingly, certain prior comparative periods presented in this analysis have been restated to recognize compensation expense for stock options that vested during those prior periods. The prior periods affected and the effect of the restatements are:

	Increase in compensation expense included in		
	variable overhead (cost of sales)	general and administrative salaries and employee benefits	Total, decrease in net income
	$	$	$
Year ended March 31, 2003	991	13,215	14,206
Quarter ended:			
June 30, 2003	330	9,910	10,240
September 30, 2003	330	7,048	7,378
December 31, 2003	1,092	7,047	8,139
March 31, 2004	1,092	7,048	8,140
Year ended March 31, 2004	2,844	31,053	33,897

Total shareholders' equity did not change as the stock option compensation expense is considered a contribution to capital.

Internal Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded, based on our evaluation, that they are sufficiently effective as of March 31, 2005 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to management and disclosed in accordance with applicable securities regulations.

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.

WestBond Enterprises Corporation

Management's Report on the Financial Statements

The accompanying consolidated financial statements of WestBond Enterprises Corporation have been prepared by and are the responsibility of the company's management. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee comprises three directors, none of whom are officers or employees of the company. The Audit Committee meets with management and the company's auditors, PricewaterhouseCoopers LLP, to review the financial statements before they are presented to the Board of Directors for approval.

PricewaterhouseCoopers LLP have examined these consolidated financial statements and their report follows.

President
July 15, 2005

Secretary/Treasurer

Auditors' Report

To the Shareholders of
WestBond Enterprises Corporation

We have audited the consolidated balance sheets of WestBond Enterprises Corporation as at March 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
May 20, 2005

WESTBOND ENTERPRISES CORPORATION

Consolidated Balance Sheets

(Canadian Dollars)

	March 31, 2005	March 31, 2004
	$	$ (restated - note 3)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	20,866	41,274
Accounts receivable	762,875	659,243
Inventory (note 6)	827,817	574,594
Prepaid expenses	65,821	31,657
TOTAL CURRENT ASSETS	1,677,379	1,306,768
PLANT AND EQUIPMENT (note 7)	2,350,018	2,138,389
TOTAL ASSETS	4,027,397	3,445,157
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 8)	424,217	325,000
Accounts payable and accrued liabilities	692,999	501,145
Current portion of term loans (note 9)	150,012	206,630
TOTAL CURRENT LIABILITIES	1,267,228	1,032,775
TERM LOANS (note 9)	362,469	512,481
FUTURE INCOME TAX LIABILITIES (note 14)	298,662	151,773
TOTAL LIABILITIES	1,928,359	1,697,029
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 10)		
Authorized – unlimited (2004 – 50,000,000) common shares without par value		
Issued and outstanding – 10,003,800 (2004 – 9,613,800) shares	2,038,836	1,980,336
STOCK OPTIONS	131,577	55,465
DEFICIT	(71,375)	(287,673)
TOTAL SHAREHOLDERS' EQUITY	2,099,038	1,748,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,027,397	3,445,157

APPROVED BY THE BOARD OF DIRECTORS:

Director

Director

The accompanying notes are an integral part of these consolidated financial statements.

WESTBOND ENTERPRISES CORPORATION

Consolidated Statements of Operations and Deficit

(Canadian Dollars)

	Year ended March 31, 2005	2004
	$	$ (restated - note 3)
SALES	5,652,270	5,069,320
COST OF SALES		
Materials	2,989,137	2,627,649
Labour	433,963	395,811
Variable overhead	296,980	180,388
Fixed overhead	244,038	205,765
Depreciation	133,575	109,195
Total cost of sales	4,097,693	3,518,808
GROSS PROFIT	1,554,577	1,550,512
EXPENSES		
Selling and marketing		
Shipping	362,881	314,324
Salaries, commissions and employee benefits	103,095	108,211
Other	20,324	21,052
Total selling and marketing expenses	486,300	443,587
General and administrative		
Administration and office	105,455	92,828
Corporate promotion	81,176	81,657
Interest on term loans	31,852	48,101
Interest on other debt	20,434	16,692
Professional fees	47,241	34,704
Salaries and employee benefits	410,110	383,599
Total general and administrative expenses	696,268	657,581
INCOME FOR THE YEAR BEFORE TAXES	372,009	449,344
INCOME TAXES		
Current	8,822	-
Future (note 14)	146,889	175,876
Total income taxes	155,711	175,876
NET INCOME FOR THE YEAR	216,298	273,468
DEFICIT - BEGINNING OF YEAR, as previously reported	(287,673)	(546,935)
Adjustment to reflect cumulative effect of change in accounting policy for employee stock options (note 3)	-	(14,206)
DEFICIT - BEGINNING OF YEAR, as restated	(287,673)	(561,141)
DEFICIT - END OF YEAR	(71,375)	(287,673)
Weighted average number of shares outstanding	9,936,485	9,545,903
NET INCOME PER SHARE, basic and diluted	0.02	0.03

The accompanying notes are an integral part of these consolidated financial statements.

WESTBOND ENTERPRISES CORPORATION

Consolidated Statements of Cash Flows

(Canadian Dollars)

	Year ended March 31, 2005	2004
	$	$ (restated - note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	216,298	273,468
Adjustments to reconcile net income to cash flows from operating activities		
- depreciation	146,361	121,685
- future income tax expense	146,889	175,876
- stock option expense	76,112	41,259
Cash flows from operating activities before net change in non-cash working capital	585,660	612,288
Net change in non-cash working capital related to operating activities	(199,165)	(53,205)
TOTAL OPERATING ACTIVITIES	386,495	559,083
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of plant and equipment	(357,990)	(824,149)
CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan proceeds	-	750,000
Repayment of term loans	(206,630)	(450,703)
Increase (decrease) in bank indebtedness	99,217	(16,370)
Issue of shares on exercise of stock options	58,500	12,820
TOTAL FINANCING ACTIVITIES	(48,913)	295,747
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,408)	30,681
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	41,274	10,593
CASH AND CASH EQUIVALENTS - END OF YEAR	20,866	41,274
INTEREST PAID	52,978	64,544

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

The company is a paper converter that manufactures disposable products for medical, hygienic and industrial uses.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, WestBond Industries Inc.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of deposit.

Inventory

Raw materials inventory is valued at the lower of cost and replacement cost. Finished goods inventory is valued at the lower of cost and net realizable value. Inventory cost is determined on a first-in, first-out basis.

Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged to earnings using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

Factory equipment	- 5 to 20 years
Leasehold improvements	- 5 to 10 years
Office equipment	- 3 to 10 years

Depreciation is not charged on assets not in service. The company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future cash flows the assets are expected to generate. When the carrying amount exceeds estimated future cash flows, the assets are written down to fair value.

Stock-Based Compensation Plan

The company has a stock-based compensation plan, which is described in note 10. Effective April 1, 2002, the fair value of stock-based compensation and other stock-based payments made in exchange for goods and services is reflected as compensation expense, or a cost of the goods or services acquired in exchange, and a contribution to shareholders' equity during the period in which the stock-based compensation or stock-based payments vest. No value is recognized for stock-based compensation granted before April 1, 2002.

Revenue

Revenue is recognized in the period during which title to the goods sold passes to the purchaser, which is generally when the goods are shipped. Revenue is reported net of estimated returns, discounts and rebates.

Income Taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Net Income Per Share

Basic net income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of stock options and that the assumed proceeds from the exercise of stock options are used to purchase common shares at the average market price during the period. The excess, if any, over the number of shares assumed issued and the number of shares assumed purchased is added to the basic weighted average number of shares outstanding to determine the diluted number of common shares outstanding. If the average market price during the period is less than the exercise price of the stock options, no dilution will occur.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the disclosures in the notes to the consolidated financial statements. Actual results may differ from these estimates.

3. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2004, the company adopted the fair value based method of accounting for stock options granted to employees and directors. Previously, the company did not recognize compensation expense for stock options granted to employees and directors.

This change in accounting policy has been applied retroactively; accordingly, the prior comparative period presented in these consolidated financial statements has been restated to recognize compensation expense and contributions to shareholders' equity for options that vested during the prior period, and the deficit at the beginning of the prior period has been adjusted to reflect compensation expense for options that vested before the prior period.

As a result of this restatement, for the year ended March 31, 2004, variable overhead has been increased by $2,844, general and administrative salaries and employee benefits has been increased by $31,053 and net income has been reduced by $33,897 from the amounts previously reported. At March 31, 2004, the stock option and deficit components of shareholders' equity have each been increased by $48,103.

4. FINANCIAL INSTRUMENTS

The company has various financial instruments including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and term loans. The fair values of these financial instruments approximate their carrying values.

5. CONCENTRATION OF CREDIT RISK

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Accounts receivable are the result of sales to a relatively wide customer base primarily in North America. The company only deals with customers that it considers creditworthy.

(Canadian Dollars)

6. INVENTORY

	2005	2004
	$	$
Raw materials	704,434	391,792
Finished goods	123,383	182,802
Total inventory	827,817	574,594

7. PLANT AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	$	$	$	$	$	$
Factory equipment	3,118,899	821,117	2,297,782	2,780,826	696,285	2,084,541
Leasehold improvements	29,287	12,483	16,804	22,403	10,241	12,162
Office equipment	96,273	60,841	35,432	92,820	51,134	41,686
Total plant and equipment	3,244,459	894,441	2,350,018	2,896,049	757,660	2,138,389

Included in factory equipment are assets costing $185,106 (2004 – $544,139) that had not been put into use at year-end.

8. BANK INDEBTEDNESS

The company has a $650,000 revolving bank loan facility. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority to the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of $500,000 are not included in the calculation. The loan outstanding under the facility bears interest at bank prime rate plus 0.75% (2004 – prime rate plus 1.5%) per annum and is payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

9. TERM LOANS

Final due date	Monthly principal repayment	2005	2004	Interest rate
	$	$	$	
September 26, 2004	-	-	19,118	Prime plus 2%
November 15, 2004	-	-	37,500	Prime plus 2%
August 8, 2008	5,834	239,154	309,162	Prime plus 1% (2004 – 1.5%)
August 22, 2008	6,667	273,327	353,331	Prime plus 1% (2004 – 1.5%)
Total		512,481	719,111	
Current portion		150,012	206,630	
Long-term portion		362,469	512,481	

A fixed and floating charge on substantially all of the company's assets has been pledged as collateral for the term loans.

(Canadian Dollars)

10. SHARE CAPITAL

Authorized and Issued Share Capital

During the year ended March 31, 2005, the authorized capital of the company was increased, first to 500,000,000 common shares without par value from 50,000,000 common shares without par value, and then to an unlimited number of common shares without par value.

	Number of common shares	Ascribed value
		$
Outstanding at March 31, 2003	9,526,967	1,967,516
Issued during the year ended March 31, 2004 on the exercise of stock options	86,833	12,820
Outstanding at March 31, 2004	9,613,800	1,980,336
Issued during the year ended March 31, 2005 on the exercise of stock options	390,000	58,500
Outstanding at March 31, 2005	10,003,800	2,038,836

Stock Option Plan

The company has adopted a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 2,000,000. Options granted under the plan generally have a term of three to five years and vest as to 12-1/2% or 25% upon granting and 12-1/2% every three months after that. The option exercise price is generally set as the market price at the time of granting; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange.

Stock options were granted, exercised and forfeited as follows:

	Number of shares subject to option	Weighted average exercise price
		$
Outstanding at March 31, 2003	900,000	0.136
Year ended March 31, 2004		
Options granted	200,000	0.150
Options granted	175,000	0.300
Options forfeited	(13,167)	0.120
Options exercised	(86,833)	0.148
Outstanding at March 31, 2004	1,175,000	0.162
Year ended March 31, 2005		
Options granted	635,000	0.270
Options exercised	(390,000)	0.150
Outstanding at March 31, 2005	1,420,000	0.213

(Canadian Dollars)

10. SHARE CAPITAL (continued)

The weighted average grant date fair value of options granted during the year ended March 31, 2005 was $0.191 per share (2004 – $0.154 per share). The fair value of the options granted is charged to earnings based on the vesting schedule, typically over 21 months.

The fair value of the options granted during the year ended March 31, 2005 was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.89% (2004 - 3.74% to 4.08%), a dividend yield of 0% (2004 – 0%), expected option lives of 4 years (2004 – 3 to 4 years) and a volatility of 100% (2004 - 106% to 110%).

The options outstanding at March 31, 2005 expire as follows:

Expiry date	Total number of shares subject to option	Weighted average remaining contractual life	Weighted average exercise price	Number of shares subject to options that are vested	Weighted average exercise price
December 18, 2006	175,000	1.7 years	$0.300	131,250	$0.300
December 12, 2007	410,000	2.7 years	$0.120	410,000	$0.120
May 6, 2008	200,000	3.1 years	$0.150	200,000	$0.150
July 7, 2009	635,000	4.3 years	$0.270	238,125	$0.270
	1,420,000	3.3 years	$0.213	979,375	$0.187

Shareholder Rights Plan

During the year ended March 31, 2004, the company adopted a shareholder rights plan (the "Plan") to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until April 29, 2006. The Plan, in effect, allows holders of common shares to purchase additional common shares from the company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the company in a transaction not approved by the board of directors of the company. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

11. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2005, the company incurred $22,168 (2004 – $13,465) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. The fees are included in professional fees. At March 31, 2005, accounts payable and accrued liabilities include $nil (2004 – $611) due to the firm.

12. SEGMENTED INFORMATION

The company operates in one industry, the disposable paper and polyethylene industry. During the year ended March 31, 2005, the company had export sales to Germany of $73,017 (2004 – $48,735) and the United States of $765,302 (2004 – $569,452).

(Canadian Dollars)

13. LEASE COMMITMENTS

The company has entered into operating lease agreements for premises which expire in December 2007 and June 2009. Future minimum lease payments are as follows:

	$
Year ending March 31, 2006	196,282
2007	196,282
2008	189,261
2009	149,247
2010	37,312

14. INCOME TAXES

The components of the company's future income tax liabilities are the tax effects of temporary differences in the tax and accounting bases of:

	2005	2004
	$	$
Plant and equipment	309,162	185,197
Non-capital losses carried forward	(2,800)	(28,735)
Other tax deductions carried forward	(7,700)	(4,689)
Total future income tax liabilities	298,662	151,773

The income tax expense shown on the consolidated statement of operations and deficit differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to the net income before taxes as follows:

	2005	2004
Combined statutory rate	35.62%	35.62%
	$	$
Income tax expense based on the statutory rates	132,510	160,056
Tax effect of expenses that are not deductible for income tax purposes	23,201	15,820
Income tax expense for the year	155,711	175,876

The company has non-capital losses available to reduce future taxable income of $7,860 which expire on March 31, 2010. The value of these losses is offset against future income tax liabilities.