



WestBond Enterprises Corporation

Management Discussion and Analysis

dated July 25, 2007, to accompany the consolidated financial statements for the year ended March 31, 2007

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 and have increased by 72% in the past 5 years. We initially grew to become one of Canada’s leading manufacturers of medical disposables. In 2002 we 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. Our third major product line is patient wipes and underlays for long-term care facilities (nursing homes).

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 products 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.

During 2005 we finished the installation of the last of the machines that permit us to provide a comprehensive personal hygiene paper product line. In addition, in September 2005, we purchased the equipment of a California based paper converter. The equipment includes two more winders for the personal hygiene line and a facial tissue folder, which has allowed us to expand our product mix and capacity. It also includes a number of other machines that will increase our operating efficiency. We are now in a position to increase our marketing efforts. We expect an 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.

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 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, 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.

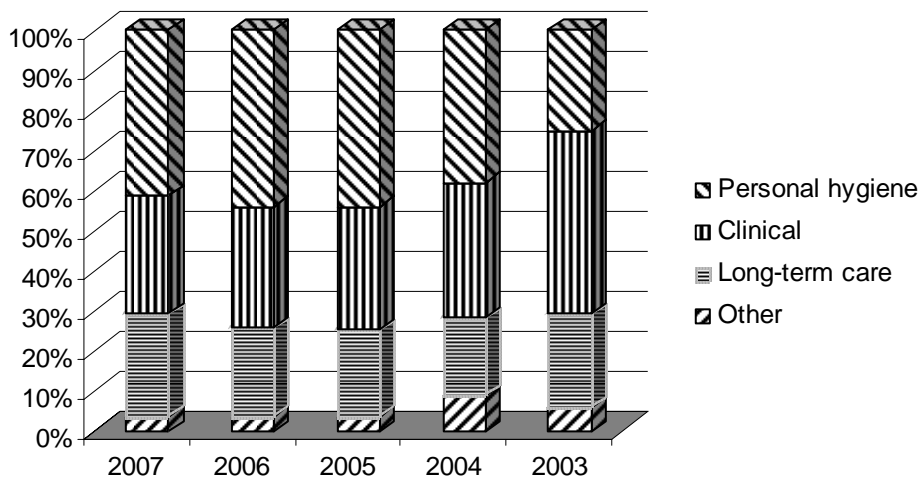
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

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 and we continue to develop new products for major Canadian and US distributors.

These three 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, 2003 through 2007.

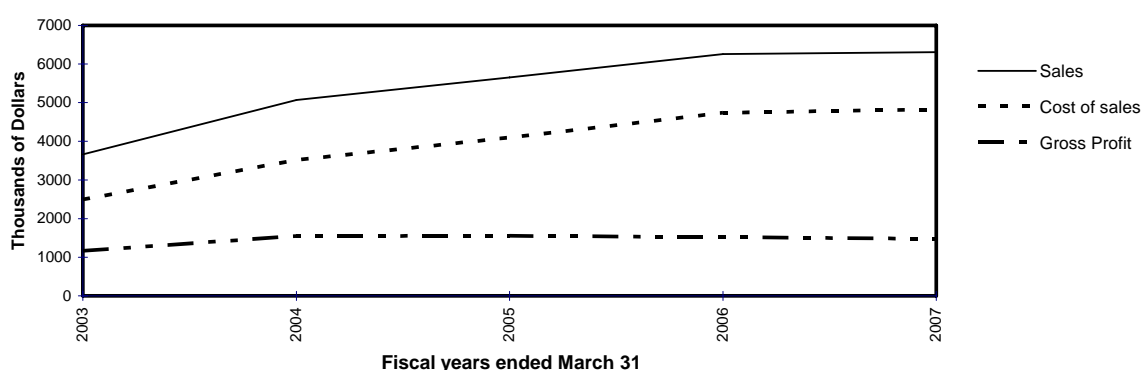


Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2007 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, 2007 was \$95,284, which is 17% less than for the year ended March 31, 2006. The less profitable results for 2006 are due mainly to a lower gross profit margin and higher selling and marketing expenses. Our gross profit margin realized during 2007 was 23%, compared to 24% for 2006 and 28% for 2005. Over the last five years, our gross profit margin has ranged from 23% to 32%, and averaged 27%.

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 Canadian generally accepted accounting principles.

Operating Results	Years ended March 31,					
	2007		2006		2005	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	6,303,386	100.0	6,259,426	100.0	5,652,270	100.0
Cost of sales	4,828,349	76.6	4,738,649	75.7	4,097,693	72.5
Gross profit	1,475,037	23.4	1,520,777	24.3	1,554,577	27.5
Selling and marketing expenses	709,333	11.3	630,553	10.1	486,300	8.6
General and administrative expenses	667,977	10.6	698,343	11.2	696,268	12.3
Net income before tax	97,727	1.5	191,881	3.0	372,009	6.6
Income tax expense	2,443	0.0	77,184	1.2	155,711	2.8
Net income	95,284	1.5	114,697	1.8	216,298	3.8
Net income per share, basic and diluted	0.01		0.01		0.02	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2007	2006	2005
	\$	\$	\$
Current assets	1,773,317	1,937,741	1,677,379
Plant and equipment	2,915,195	3,014,802	2,350,018
Total assets	4,688,512	4,952,543	4,027,397
Current liabilities	1,647,321	1,748,140	1,267,228
Long-term liabilities	644,811	920,267	661,131
Shareholders' equity	2,396,380	2,284,136	2,099,038

Sales

Sales were \$6,303,386 for the year ended March 31, 2007. This represents a 0.7% increase over the year ended March 31, 2006. Increased sales in the long-term care products are the result of increased volumes. The decrease in sales of the personal hygiene products are the result of lower volumes and lower prices. Pressure from US competitors offering product in reduced value US dollars made it difficult for us to maintain or increase our price levels during the past two years.

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

	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$
Personal hygiene products	2,595,586	2,760,316	2,484,051	1,928,733	918,877
Clinical products	1,864,429	1,882,879	1,733,599	1,709,997	1,665,870
Long-term care products	1,616,840	1,387,861	1,223,751	977,938	860,593
Other products	226,531	228,370	210,869	452,652	217,921
Total sales	6,303,386	6,259,426	5,652,270	5,069,320	3,663,261
Change over previous year	0.7%	10.7%	11.5%	38.4%	38.2%

We have seen growth in all three of the major product categories over the past five years. The growth is caused by increased sales volumes, new customers and new products. Price increases have not been significant during the last few years, although the weak US dollar has decreased the value of our sales to the United States. Approximately 20% of our sales are in US dollars.

We have expanded our production capacity and product offerings for the personal hygiene products from 2004 to 2007 and we intend to focus on increasing our sales of these products, both in the western United States and across Canada. In September 2005 we purchased the equipment of a California based paper converter. We refurbished and installed two tissue winders and a towel folder from this purchase during 2006 and are now in the process of refurbishing and installing a facial tissue folder and other equipment that will increase our efficiency.

In 2006 we also entered into an agency agreement with National Sales of Sacramento, California, who represented WestBond's complete product line throughout the western United States. Significant competition from Asia and the weak US dollar prevented our sales expectations in this region from being realized. We have discontinued the agency agreement, although National Sales continues as a commissioned agent.

Sales volumes of long-term care products increased by 16.5% in 2007 over 2006, which was more than we had expected. This market is expanding very quickly due to the aging Canadian and US populations. We expect continued improvements in these product sales during the 2008 fiscal year. We continue to identify new markets and design custom products to meet customer demands.

Other products include airline lavatory hand towels sold to Air Canada on a temporary basis during 2004.

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. However, competition from US distributors in the Canadian market as a result of the increased relative value of the Canadian dollar, has made it difficult to increase our prices.

Cost of Sales

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

	2007		2006		2005		2004		2003	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	3,305,299	52.4	3,376,830	54.0	2,989,137	52.9	2,627,649	51.8	1,800,893	49.2
Labour	491,718	7.8	484,963	7.8	433,963	7.7	395,811	7.8	287,115	7.8
Variable overhead	479,490	7.6	415,867	6.6	296,980	5.2	180,388	3.6	147,096	4.0
Fixed overhead	325,581	5.2	290,166	4.6	244,038	4.3	205,765	4.1	167,043	4.6
Depreciation	226,261	3.6	170,823	2.7	133,575	2.4	109,195	2.1	95,269	2.6
Total cost of sales	4,828,349	76.6	4,738,649	75.7	4,097,693	72.5	3,518,808	69.4	2,497,416	68.2

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. 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. Our margins are lower for the personal hygiene products, where much of the recent has growth occurred, than for the other product lines.

Paper prices, our most significant materials cost, increased during the years ended March 31, 2006 and 2007. Exchange rate fluctuations; however, worked in our favour to offset the higher US dollar prices. While we do not forecast any further paper price increases for our 2008 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. Materials costs also fluctuate from differences in the yield factors (the amount of product that a certain weight of paper will produce).

We had some difficulty obtaining paper supplies during the years ended March 31, 2007 and 2005 because of a shortage in supply and estimate we lost \$200,000 in sales 2005 and somewhat less during 2007 as a result. 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 averages 7.8% of sales and has been relatively stable over the last four years. The current labour market near our factory is tight and it is taking extra time to find and train 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 maintenance activities, factory supervision, training and stock transfer costs account for the recent increases in variable overhead. These activities have improved production efficiencies and we plan to continue them.

Higher rent added \$28,861 to fixed overhead in 2007, \$53,334 in 2006, \$24,045 in 2005, and \$27,101 in 2004. A scheduled rent increase went into effect in July 2003 and we have also rented additional warehouse space, which increased fixed overhead for 2004 and later years. Other fluctuations in fixed overhead are due to differences in insurance premiums, which increased by \$6,037 in 2007 and decreased by \$7,206 in 2006 after increasing by \$14,345 in 2005 and \$11,636 in 2004. Increases in depreciation expense are the result of bringing new equipment into use.

Selling Expenses

Shipping costs are higher in 2007 than in 2006 as a result of the Company paying freight for more customers, higher freight rates and fuel surcharges and greater shipping distances. Sales commissions

and other selling expenses have increased because of the commissioned sales agent that we hired in California.

General and Administrative Expenses

Our general and administrative costs have decreased slightly in 2007 over 2006 except for interest expense.

Interest expense was higher in 2007 over 2006 because interest rates have increased and because the debt levels have increased. Interest on our bank indebtedness and term loans fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2007, a 1% increase in the prime rate of interest would increase total interest expense by \$12,656 per year.

Professional fees during the year ended March 31, 2007 include \$11,726 paid to DuMoulin Black LLC, a law firm in which J. Douglas Seppala, one of our directors, is a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties.

Income Taxes

Our future income tax expense is very low for the year ended March 31, 2007 because of the reductions in future income tax rates enacted during the year. The future income tax liabilities that were recorded up to March 31, 2007 at an effective rate of 34.12% were reduced to 31%, creating a recovery of \$38,961. A further rate reduction, to 30.5% has been enacted during the year ending March 31, 2008.

New Accounting Policies

New accounting standards adopted by the Canadian Institute of Chartered Accountants apply to financial instruments commencing with our current fiscal year, ending on March 31, 2008. We do not anticipate any significant effect on our financial statements as a result of adopting the new standards.

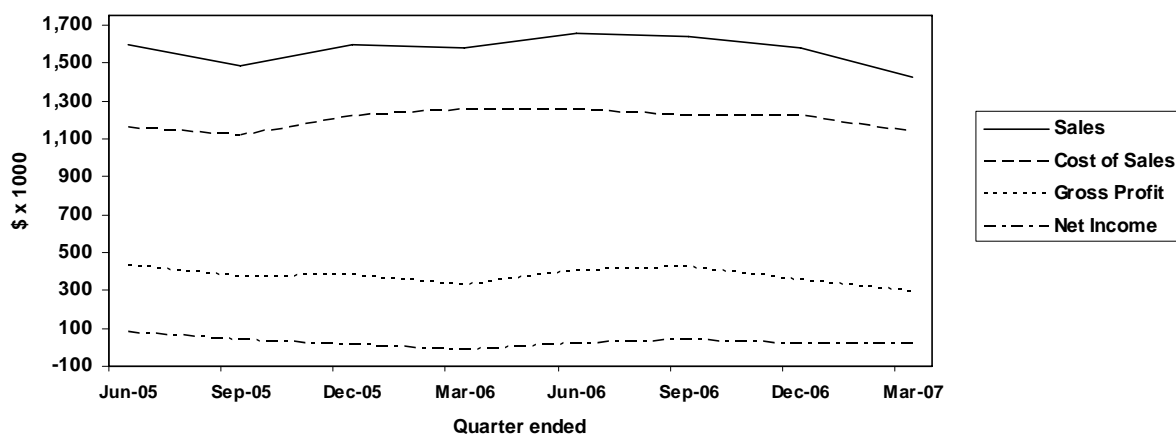
Summary of Quarterly Results (Unaudited)

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 Canadian generally accepted accounting principles.

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005	Jun 30 2005
Sales	1,426	1,580	1,641	1,656	1,581	1,598	1,487	1,592
Cost of sales	1,135	1,223	1,221	1,250	1,249	1,215	1,118	1,157
Gross profit	291	357	420	406	332	383	369	435
Selling and marketing expenses	161	174	191	183	194	171	125	136
General and administrative expenses	167	152	169	181	178	183	176	163
Net (loss) income before taxes	(37)	31	60	42	(40)	29	68	136
Income tax (recovery) expense	(52)	11	22	20	(25)	17	31	55
Net income (loss)	15	20	38	22	(15)	12	37	81
Net income (loss) per share, basic and diluted - Cdn\$	0.002	0.002	0.004	0.002	(0.002)	0.001	0.004	0.008
Sales - % change over previous quarter	-9.8	-3.7	-0.9	4.7	-1.1	7.5	-6.6	6.0

Costs, expenses and net income - % of Sales

Cost of sales	79.5	77.4	74.4	75.4	79.0	76.0	75.1	72.7
Selling and marketing expenses	11.3	11.0	11.6	11.1	12.3	10.8	8.5	8.6
General and administrative expenses	11.7	9.6	10.3	10.9	11.3	11.4	11.8	10.2
Income tax (recovery) expense	-3.6	0.7	1.4	1.2	-1.6	1.0	2.1	3.4
Net (loss) income	1.1	1.3	2.3	1.4	-1.0	0.8	2.5	5.1



The fluctuations in sales are, for the most part, due to changes in volume. The decrease during the quarter ended March 31, 2007 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 \$100,000 in sales as a result.

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. Our variable overhead has increased because of increased maintenance and supervisory activities and costs. We expect these to be normalized soon. Selling and marketing expenses are trending upwards, as a percentage of sales, due to increasing freight costs. The addition of sales agent in California increased our selling expenses, as well. General and administrative expenses are relatively stable.

Liquidity and Capital Resources

Our operating cash flows were \$348,757 during the year ended March 31, 2007, an average of \$29,063 per month, compared to \$37,580 per month during 2006, before accounting for fluctuations in non-cash working capital. This cash flow was insufficient to maintain compliance with the covenants on our bank loans. We repaid one of our term loans (\$113,319 at March 31, 2007) in July 2007 in order to reduce the operating cash flows required to maintain the covenants in good standing. We are currently in compliance with all loan covenants and do not anticipate further loan non-compliance issues. The funds to repay the loan came from a private placement of 1,060,000 units at \$0.095 per unit. Each unit comprises one share and one warrant to purchase an additional share at \$0.125 per share until July 17, 2012.

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 \$535,599 at March 31, 2007. Principal repayments were \$20,382 per month and, with the repayment of one of the term loans, have now been reduced to \$13,715 per month.

We have a revolving bank loan facility of \$1,000,000, of which \$730,000 was used at March 31, 2007. 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. The loan outstanding at March 31, 2007 was in excess of this amount; however, the loan amount was subsequently reduced and is now within the permitted amount.

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.

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, 2008. 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.

Share Capital

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

	<u>Amount at July 25, 2007</u>
Authorized common shares	Unlimited
Issued common shares	11,063,800
Shares issuable on the exercise of outstanding warrants	1,060,000
Shares issuable on exercise of outstanding stock options	1,145,000
Shares available for future stock option grants	855,000

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 the Company's annual general meeting in 2009. 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 that is not a Permitted Bid under the Plan. 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.

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, 2007 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.

Internal Control over Financial Reporting

No changes in our internal control over financial reporting have occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, all of whom are neither officers nor 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 25, 2007



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, 2007 and 2006 and the consolidated statements of operations and retained earnings 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, 2007 and 2006 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

July 25, 2007

WESTBOND ENTERPRISES CORPORATION
Consolidated Balance Sheets
(Canadian Dollars)

	March 31, 2007	March 31, 2006
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	33,675	62,924
Accounts receivable	954,201	1,008,730
Inventory (note 5)	746,138	827,274
Prepaid expenses	39,303	38,813
TOTAL CURRENT ASSETS	1,773,317	1,937,741
PLANT AND EQUIPMENT (note 6)	2,915,195	3,014,802
TOTAL ASSETS	4,688,512	4,952,543
L I A B I L I T I E S		
CURRENT LIABILITIES		
Bank indebtedness (note 7)	730,000	615,101
Accounts payable and accrued liabilities	639,422	888,455
Current portion of term loans (notes 8 and 14)	277,899	244,584
TOTAL CURRENT LIABILITIES	1,647,321	1,748,140
TERM LOANS (note 8)	257,700	535,599
FUTURE INCOME TAX LIABILITIES (note 9)	387,111	384,668
TOTAL LIABILITIES	2,292,132	2,668,407
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (notes 10 and 14)		
Authorized – unlimited common shares without par value		
Issued and outstanding – 10,003,800 shares	2,038,836	2,038,836
STOCK OPTIONS (note 10)	218,938	201,978
RETAINED EARNINGS	138,606	43,322
TOTAL SHAREHOLDERS' EQUITY	2,396,380	2,284,136
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,688,512	4,952,543

Nature of Operations (note 1)
Commitments (note 13)

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 Retained Earnings
(Canadian Dollars)

	Year ended March 31,	
	2007	2006
	\$	\$
SALES	6,303,386	6,259,426
COST OF SALES		
Materials	3,305,299	3,376,830
Labour	491,718	484,963
Variable overhead	479,490	415,867
Fixed overhead	325,581	290,166
Depreciation	226,261	170,823
Total cost of sales	4,828,349	4,738,649
GROSS PROFIT	1,475,037	1,520,777
EXPENSES		
Selling and marketing		
Shipping	474,546	443,444
Salaries, commissions and employee benefits	201,951	158,609
Other	32,836	28,500
Total selling and marketing expenses	709,333	630,553
General and administrative		
Administration and office	105,145	119,116
Corporate promotion	40,758	45,484
Interest on term loans	44,012	39,345
Interest on other debt	45,902	25,426
Professional fees	32,964	34,790
Salaries and employee benefits	399,196	434,182
Total general and administrative expenses	667,977	698,343
INCOME FOR THE YEAR BEFORE TAXES	97,727	191,881
PROVISION FOR (RECOVERY OF) INCOME TAXES (note 9)		
Current	-	(8,822)
Future	2,443	86,006
Total income taxes	2,443	77,184
NET INCOME FOR THE YEAR	95,284	114,697
RETAINED EARNINGS (DEFICIT)- BEGINNING OF YEAR	43,322	(71,375)
RETAINED EARNINGS - END OF YEAR	138,606	43,322
Weighted average number of shares outstanding	10,003,800	10,003,800
EARNINGS PER SHARE, basic and diluted	0.01	0.01

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,	
	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	95,284	114,697
Adjustments to reconcile net income to cash flows from operating activities		
- depreciation	234,070	179,853
- future income tax expense	2,443	86,006
- stock option expense	16,960	70,401
	348,757	450,957
Cash flows from operating activities before net change in non-cash working capital		
Net change in non-cash working capital related to operating activities	(113,858)	(22,848)
	234,899	428,109
TOTAL OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(134,463)	(844,637)
CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan proceeds	-	465,000
Repayment of term loans	(244,584)	(197,298)
Increase (decrease) in bank indebtedness	114,899	190,884
	(129,685)	458,586
TOTAL FINANCING ACTIVITIES		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,249)	42,058
CASH AND CASH EQUIVALENTS		
- BEGINNING OF YEAR	62,924	20,866
CASH AND CASH EQUIVALENTS		
- END OF YEAR	33,675	62,924
INTEREST PAID		
	89,817	64,582

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

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006
(Canadian Dollars)

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. 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.

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

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings 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. Significant estimates are made in the determination of allowances for doubtful accounts receivable, the net realizable value of inventories, the useful lives of plant and equipment and the reversal dates of future income tax assets and liabilities.

3. 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.

4. CONCENTRATION OF CREDIT RISK

Other than the exposure to one account receivable that is delinquent, 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. One of the company's customers is delinquent in payment of \$139,000 to the company at March 31, 2007; of which \$51,000 has been repaid subsequent to March 31, 2007. Management estimates that the balance of the receivable will be collected over time.

5. INVENTORY

	2007	2006
	\$	\$
Raw materials	532,403	674,800
Finished goods	213,735	152,474
Total inventory	<u>746,138</u>	<u>827,274</u>

WESTBOND ENTERPRISES CORPORATION
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6. PLANT AND EQUIPMENT

	2007			2006		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net book value \$
Factory equipment	4,065,933	1,204,105	2,861,828	3,954,925	987,673	2,967,252
Leasehold improvements	43,656	22,814	20,842	33,212	16,751	16,461
Office equipment	101,989	69,464	32,525	93,829	62,740	31,089
Total plant and equipment	<u>4,211,578</u>	<u>1,296,383</u>	<u>2,915,195</u>	<u>4,081,966</u>	<u>1,067,164</u>	<u>3,014,802</u>

Included in factory equipment are assets costing \$317,867 (2006 – \$349,075) that had not been put into use at year-end.

7. BANK INDEBTEDNESS

The company has a \$1,000,000 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 U.S. 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 at May 31, 2007 was in excess of the permitted amount; however, subsequent to March 31, 2007 this covenant was brought back into compliance. The loan outstanding under the facility bears interest at bank prime rate plus 0.5% 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.

8. TERM LOANS

Final due date	Monthly principal repayment \$	2007		2006		Interest rate
		2007	2006	2007	2006	
August 8, 2008	5,834	99,138	169,146	Prime plus 0.75%		
August 22, 2008	6,667	113,319	193,323	Prime plus 0.75%		
August 16, 2010	7,881	323,142	417,714	Prime plus 0.75%		
Total		535,599	780,183			
Current portion		277,899	244,584			
Long-term portion		257,700	535,599			

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

The term loans are from a Canadian chartered bank. As part of its agreement with the bank, the company is required to maintain earnings before interest expense, income tax and depreciation of 1.5 times the current portion of long-term debt plus interest expense, calculated on a rolling four quarter basis. The company did not comply with this covenant for the four quarters ended March 31, 2007; however, subsequent to March 31, 2007, the company and the bank amended the agreement such that the bank agreed to waive this non-compliance at March 31, 2007, provided the loan maturing on August 22, 2008 was repaid in full. That loan was repaid in full subsequent to March 31, 2007.

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
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9. 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:

	2007	2006
	\$	\$
Plant and equipment	453,207	407,255
Non-capital losses carried forward	(61,104)	(15,805)
Other tax deductions carried forward	(4,992)	(6,782)
Total future income tax liabilities	<u>387,111</u>	<u>384,668</u>

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:

	2007	2006
Combined statutory rate	34.12%	34.494%
	\$	\$
Income tax expense based on the statutory rates	33,344	66,187
Tax effect of expenses that are not deductible for income tax purposes	8,060	24,978
Effect of reductions in the statutory tax rates	<u>(38,961)</u>	<u>(13,981)</u>
Income tax expense for the year	<u>2,443</u>	<u>77,184</u>

The company has non-capital losses available to reduce future taxable income of \$197,109, of which \$157 expire on March 31, 2010, \$44,259 expire on March 31, 2026 and \$152,693 expire on March 31, 2027. The value of these losses is offset against future income tax liabilities.

10. SHARE CAPITAL

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.

WESTBOND ENTERPRISES CORPORATION
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10. SHARE CAPITAL (continued)

Stock options were granted, exercised and forfeited as follows:

	Number of shares subject to option	Weighted average exercise price
		\$
Outstanding at March 31, 2005	1,420,000	0.213
Options granted	75,000	0.240
Outstanding at March 31, 2006	1,495,000	0.215
Options expired	(175,000)	0.300
Options forfeited	(175,000)	0.201
Outstanding at March 31, 2007	1,145,000	0.204

The weighted average grant date fair value of options granted during the year ended March 31, 2006 was \$0.048 per share. The fair value of the options granted is charged to earnings based on the vesting schedule, typically over 21 months. Stock based compensation expense for the year ended March 31, 2007 was \$16,960 (2006 – \$70,401).

The fair value of the options granted during the year ended March 31, 2006 was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.73%, a dividend yield of 0%, expected option lives of 2 years and a volatility of 32%.

The options outstanding at March 31, 2007 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
November 30, 2007	75,000	0.7 years	\$0.240	56,250	\$0.240
December 12, 2007	410,000	0.7 years	\$0.120	410,000	\$0.120
May 6, 2008	100,000	1.1 years	\$0.150	100,000	\$0.150
July 7, 2009	560,000	2.3 years	\$0.270	560,000	\$0.270
	1,145,000	1.5 years	\$0.204	1,126,250	\$0.203

Shareholder Rights Plan

The company has adopted a shareholder rights plan (the "Plan") to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan was originally to remain in effect until April 29, 2006, but was extended during the year ended March 31, 2007 to remain in effect until the close of the company's annual general meeting in 2009. 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.

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11. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2007, the company incurred \$11,726 (2006 – \$11,852) of legal fees in the normal course of operations with firms in which a director of the company is a partner. \$11,726 (2006 – \$6,347) of the fees are included in professional fees and \$ nil (2006 – \$5,505) are included in plant and equipment purchases. At March 31, 2007, accounts payable and accrued liabilities include \$2,426 (2006 – \$2,272) due to the firms. The fees are at rates comparable to those charged to un-related parties.

12. SEGMENTED INFORMATION

The company operates in one industry, the disposable paper and polyethylene industry. During the year ended March 31, 2007, the company had export sales to Germany of \$50,915 (2006 – \$24,225) and the United States of \$1,248,462 (2006 – \$1,070,967). During the year ended March 31, 2007, the company had sales to one customer of \$862,350 which represented more than 10% of sales (2006 – \$658,238).

13. LEASE COMMITMENTS

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

	\$
Year ending March 31, 2008	224,699
2009	184,685
2010	55,031

14. SUBSEQUENT EVENTS

Subsequent to March 31, 2007 the company issued, for cash proceeds of \$100,700, 1,060,000 common shares and warrants to purchase an additional 1,060,000 shares at \$0.125 per share until July 17, 2012.

Subsequent to March 31, 2007 the company repaid the term loan maturing on August 22, 2008 (note 8).