



# ***WESTBOND ENTERPRISES CORPORATION***

## ***2014 Annual Report***

**WestBond Enterprises Corporation  
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# WestBond Enterprises Corporation

## Management Discussion and Analysis

dated July 21, 2014, to accompany the consolidated financial statements for the year ended March 31, 2014

**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. We initially grew to become one of Canada’s leading manufacturers of medical disposables and later expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

Our product lines include clinical products such as examination table paper, 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 for the personal hygiene line is to increase sales by supplying a comprehensive paper product line directly to medium sized janitorial contractors providing public washroom maintenance services and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct 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.

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

Our plant comprises a variety of equipment that enables us to provide a comprehensive range of products for each of our product lines. In the 2012 fiscal year we added equipment that allows us to utilize a wider variety of paper supplies, enabling us to take advantage of better raw material pricing opportunities. We acquired equipment in the 2014 fiscal year that will allow us to produce facial tissue and other air laid products. This tissue line will be brought into production during the 2015 fiscal year.

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

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a specialty line of roll towels and bathroom tissue. This specialty line provides us with high margin products that few converters are able to produce. We manufacture our products in 1 and 2 ply formats. 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.

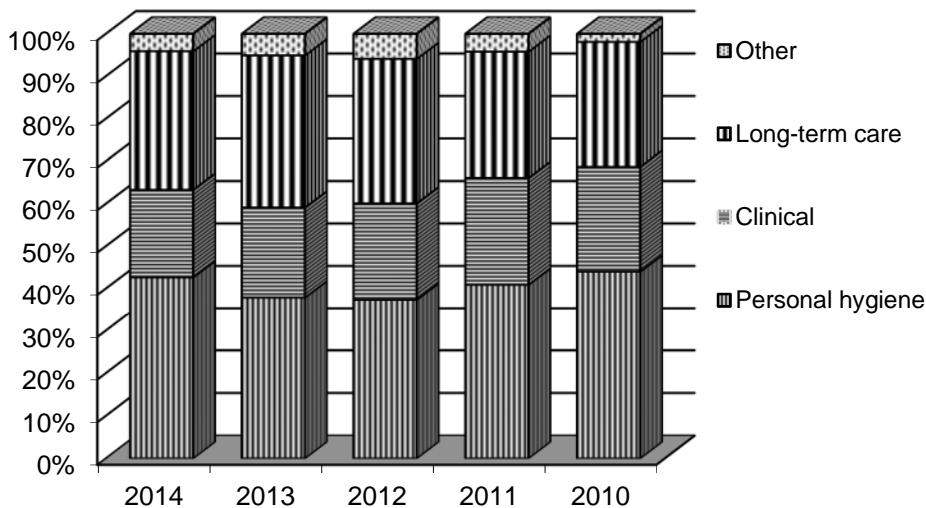
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

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

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

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, 2010 through 2014.

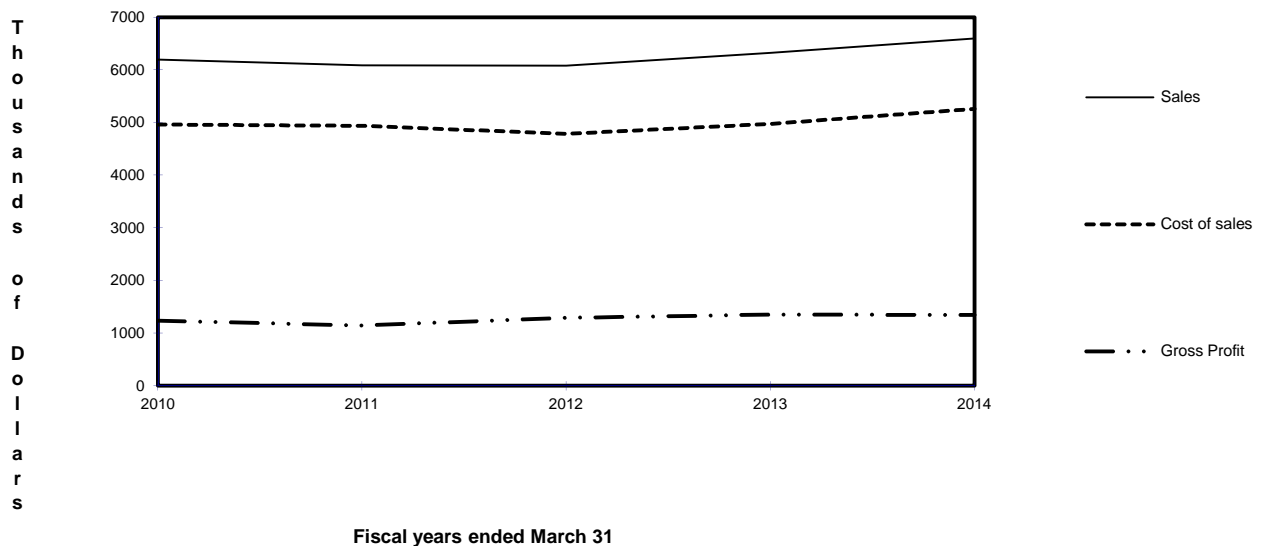


## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2014 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 profit for the year ended March 31, 2014 was \$46,655, compared to \$120,662 for the year ended March 31, 2013. Our gross profit margin realized during 2014 was 20.3%, compared to 21.4% for 2013 and 21.2% for 2012. Our gross profit margins were lower due to increased prices for raw materials costs. Sales volume growth is the result of weakened competition from US and Chinese products. The higher value of the US dollar makes their product more expensive in Canada, which has improved our sales. Additionally, our sales into the US market, which are priced in US dollars, result in higher Canadian dollar margins.

Sales, Cost of Sales and Gross Profit



## Selected Annual Information (Unaudited)

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

Operating Results	Years ended March 31,					
	2014		2013		2012	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	6,599,440	100.0	6,324,479	100.0	6,078,464	100.0
Cost of sales	5,256,808	79.7	4,972,877	78.6	4,786,881	78.8
Gross profit	1,342,632	20.3	1,351,602	21.4	1,291,583	21.2
Selling and distribution expenses	631,513	9.6	594,695	9.4	545,580	9.0
General and administrative expenses	589,037	8.9	594,722	9.4	562,889	9.3
Other expenses and (income)	26,886	0.4	(1,526)	0.0	14,322	0.2
Profit before tax	95,195	1.4	163,711	2.6	168,792	2.7
Income tax expense	48,541	0.7	43,049	0.7	44,657	0.7
Profit and Comprehensive Income	46,655	0.7	120,662	1.9	124,135	2.0
Earnings per share, basic and diluted	0.002		0.011		0.011	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2014	2013	2012
	\$	\$	\$
Non-Current Assets	2,507,459	2,588,852	2,712,512
Current Assets	3,596,274	2,118,489	2,043,675
Total assets	6,166,733	4,707,341	4,756,187
Non-Current Liabilities	533,722	513,428	486,083
Current liabilities	673,192	1,031,871	1,228,724
Shareholders' equity	4,959,819	3,162,042	3,041,380

### Sales

Sales were \$6,599,440 for the year ended March 31, 2014, a 4.3% increase over the year ended March 31, 2013. The table below summarizes the sales of the Company for the last five fiscal years.

	2014	2013	2012	2011	2010
	\$	\$	\$	\$	\$
Personal hygiene products	2,815,772	2,396,857	2,272,271	2,490,393	2,728,938
Clinical products	1,361,185	1,342,068	1,380,663	1,530,226	1,529,217
Long-term care products	2,152,750	2,264,003	2,067,114	1,809,194	1,822,673
Other products	269,733	321,551	358,415	255,537	117,497
Total sales	6,599,440	6,324,479	6,078,464	6,085,350	6,198,326
Change over previous year	4.3%	4.0%	-0.1%	-1.8%	3.2%

Sales increased in personal hygiene and clinical products and decreased in long-term care and other products. The increase in personal hygiene products was caused by decreased competition from US and Chinese producers. The long-term care market continues strong due to the aging population. The decrease in the long-term care products was caused by the timing of large orders near fiscal year-end cut-offs. Approximately 27% of our sales are in priced in US dollars, mainly in the personal hygiene and long-term care products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar.

## Cost of Sales

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

	2014		2013		2012		2011		2010	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	3,592,517	54.4	3,326,153	52.6	3,189,726	52.5	3,336,987	54.8	3,362,612	54.2
Production labour	493,246	7.5	458,586	7.3	492,228	8.1	512,835	8.4	543,802	8.8
Factory overhead										
labour	252,405	3.8	262,869	4.2	257,186	4.2	284,285	4.7	253,980	4.1
Variable overhead	142,759	2.2	160,293	2.5	153,867	2.5	146,876	2.4	159,931	2.6
Fixed overhead	452,187	6.9	451,536	7.1	442,116	7.3	435,085	7.2	388,175	6.3
Depreciation	323,694	4.9	313,440	4.9	251,758	4.2	223,345	3.7	253,894	4.1
Total cost of sales	5,256,808	79.7	4,972,877	78.6	4,786,881	78.8	4,939,413	81.2	4,962,394	80.1

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.

Paper prices, our most significant materials cost, increased during the 2014 fiscal year, primarily in the 4<sup>th</sup> quarter, and were relatively stable in our 2013 and 2012 fiscal years, after having increased every year since 2006. Paper prices can be volatile. Our prices to our customers have been set to allow for paper cost increases of up to 10%. Materials costs also fluctuate from differences in the yield factors (the amount of product that a certain weight of paper will produce).

During our 2013 fiscal year, two of our paper suppliers closed local paper machines that supplied us and we now have to import more of our paper from the eastern United States and China, which increases our exposure to delivery delays and to fluctuations in US dollar exchange rates. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply of paper; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Production labour in cost of sales averaged 7.5% of sales during 2014 which is a slight increase from 7.3% in 2013 but well within our normal operating range, The improvement over previous years is primarily caused by improved employee productivity and the addition of more efficient machinery. The labour market near our factory has been tight during the last few years and it has taken extra time to find and train new machine operators. If we are unable to hire sufficient machine operators, we will not be able to produce additional products for sale.

Factory overhead labour increased in 2011 from the addition of a full-time factory raw materials handler. We discontinued this position in 2012 as we did not realize the expected savings in production labour efficiency. Variable overhead normally fluctuates slightly from one period to the next. The lower costs during 2014 are the result of lower repairs and maintenance activities.

Higher rent added \$8,369 to fixed overhead in 2013, \$7,970 in 2012, and \$48,825 in 2011. Other fluctuations in fixed overhead are due to differences in insurance premiums. Increases in depreciation expense are the result of bringing new equipment into use. Depreciation expense decreased in 2011 because we extended our estimates of the economic life of much of our equipment. We have leased a new facility that is larger than our current two facilities, combined, at a lower overall rent. We will complete the move over the 2014 summer months.

## Selling Expenses

Shipping costs are higher in 2014 than in 2013 because of increased shipping rates and "fuel surcharges" and because sales to the USA and Central and Eastern Canada have increased while local sales have decreased. Sales commissions were higher in 2014, primarily to agents for customers in Central and Eastern Canada.

## **General and Administrative Expenses**

General and administrative costs decreased in 2014 compared to 2013 due to decreased business development expenses and a loss on a payment made to a machine supplier in 2013. Professional fees were higher due to the changes to our shareholder rights plan and other non-routine matters addressed at our annual general meeting and the negotiation of our new factory lease. Salaries and other employee benefits were higher due to increased staffing levels.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Recent general economic conditions may cause some of our customers to be less creditworthy. We regularly monitor our receivables aging and discuss overdue accounts with senior-level customer personnel to encourage more prompt payment and to evaluate future creditworthiness. At March 31, 2014, trade and other receivables include \$28,425 that is more than 30 days past due and against which we have made no allowance for loss. We believe that we will eventually receive full payment of these amounts. During 2014 we had bad debt losses of \$414 compared to no bad debt losses for 2013.

During the year ended March 31, 2014, professional fees include \$37,016 and share issue costs include \$36,338 paid to DuMoulin Black LLP, 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. During the year ended March 31, 2014, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, taxes and perquisites), of \$335,215 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$302,355 of the compensation is included in general and administrative salaries and employee benefits, \$26,798 is included in administration and office and \$6,062 is included in other selling and distribution expenses.

## **Other Income and Expenses**

We are exposed to fluctuations in the US/Cdn dollar exchange rates as portions of our cash, accounts receivable and accounts payable are denominated in US dollars. While the amounts of exposure change on a daily basis, we generally have more US dollar financial assets than US dollar liabilities. Over the past year, our exposure ranged from US\$110,000 net assets to US\$35,000 net liabilities and averaged approximately US\$70,000 net assets (calculated on a quarterly basis). Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.10 to Cdn\$1.09) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn\$700 on an exposure of US\$70,000. During the year ended March 31, 2014 we realized a foreign exchange loss of \$20,720 compared to a loss of \$9,970 in 2013. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

Interest on our bank indebtedness fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2014, a 1% increase in the prime rate of interest would increase total interest expense by \$444 per year.

## **Liquidity and Capital Resources**

Our operating cash flows were \$405,976 during the year ended March 31, 2014, an average of \$33,831 per month, compared to \$37,328 per month during 2013, before accounting for fluctuations in non-cash working capital. At March 31, 2014, we had cash of \$1,638,407 and working capital of \$2,923,082 compared to cash of \$76,157 and working capital of \$1,086,618 at March 31, 2013.

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

We have a revolving bank loan facility of \$1,000,000, none of which was used at March 31, 2014. 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 \$700,000 are not included in the calculation. Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$300,000 and accounts payable by an

additional \$200,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We have a \$44,432 non-revolving term loan facility that we used to partially finance the purchase of equipment during 2012. The loan is repayable in monthly instalments of principal of \$5,556 until November 30, 2014 at which time the then remaining principal and interest is due. The loan bears interest at bank prime plus 1%, payable monthly. A fixed charge on the specific equipment purchased is pledged as collateral.

We also have a \$5,000,000 term loan credit facility for the purchase of certain production equipment. Loans under the facility are to be fully drawn down by September 30, 2015. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing 12 months after final draw with a final payment of the balance of principal 24 months after final draw. Interest is payable monthly at bank prime plus 1.5% per annum. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets will be pledged as collateral.

During the year ended March 31, 2014 we issued 18,750,000 shares for cash at \$0.08 per share and 3,447,000 shares for cash at \$0.09 per share. We will use the proceeds from the shares issued to purchase equipment that will vertically integrate and expand our production capacity.

Three directors of the company and close members of their families purchased a portion of the shares issued on the same terms as shares purchased by parties not related to the company, as follows

<u>Director</u>	<u>Number of shares purchased at</u>	
	<u>\$0.08 per share</u>	<u>\$0.09 per share</u>
Gennaro Magistrale	5,625,000	280,000
Close family members of Gennaro Magistrale	1,375,000	-
Owen Granger	1,737,500	125,000
J. Douglas Seppala	-	222,222

We have committed to the purchase of equipment in the amount of €3,895,379 (European euros), equivalent to Cdn\$5,931,494 at the March 31, 2014 exchange rate of €1.00=Cdn\$1.5227. Subsequent to March 31, 2014 we made payments of €1,129,884 against these commitments, issued irrevocable bank letters of credit for the balance and entered into forward exchange contracts to purchase €2,317,431 at a weighted average exchange rate of €1.00=Cdn\$1.4804. The bank letters of credit and forward exchange contracts are supported by the \$5,000,000 term bank loan facility.

We intend to spend around \$1,300,000 in addition to the commitments we have already made for production equipment and leasehold improvements during the next year.

### ***New Accounting Policies***

We did not adopt any new accounting policies that had a significant effect on our financial statements during the year ended March 31, 2014 and we do not expect to adopt any new accounting policies during the year ending March 31, 2015 that will have a significant effect on our financial statements.



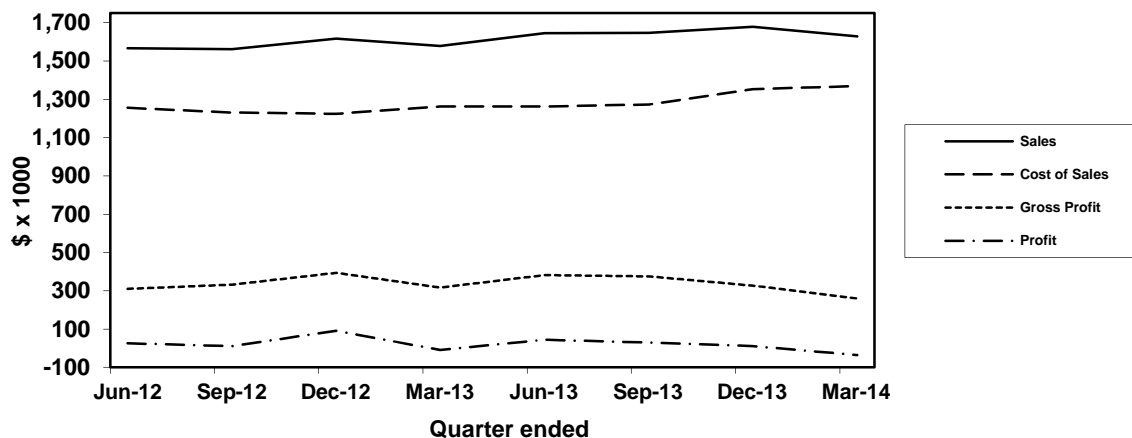
## Summary of Quarterly Results (Unaudited)

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

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012
Sales	1,629	1,678	1,647	1,644	1,579	1,617	1,562	1,566
Cost of sales	1,369	1,352	1,272	1,263	1,263	1,224	1,231	1,256
Gross profit	260	326	375	381	316	393	331	310
Selling and distribution expenses	146	157	168	161	148	150	160	136
General and administrative expenses	154	149	157	129	170	150	137	138
Other expenses (income)	7	7	9	5	10	(28)	17	-
(Loss) profit before tax	(47)	13	41	86	(12)	121	17	36
Income tax (recovery) expense	(11)	4	12	43	(2)	30	6	10
(Loss) profit	(36)	9	29	43	(10)	91	11	26
(Loss) earnings per share, basic and diluted - Cdn\$	(0.001)	0.000	0.002	0.004	(0.001)	0.008	0.001	0.002
<b>Sales - % change over previous quarter</b>	<b>-2.8</b>	<b>1.9</b>	<b>0.1</b>	<b>4.1</b>	<b>-2.3</b>	<b>3.5</b>	<b>-0.3</b>	<b>1.8</b>

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

Cost of sales	84.0	80.6	77.2	76.8	80.0	75.7	78.8	80.2
Selling and distribution expenses	8.9	9.4	10.2	9.8	9.3	9.3	10.2	8.7
General and administrative expenses	9.4	8.9	9.5	7.9	10.7	9.3	8.8	8.8
Other expenses (income)	0.5	0.4	0.6	0.3	0.6	-1.8	1.1	0.0
Income tax expense	-0.7	0.2	0.7	2.6	-0.1	1.9	0.4	0.6
Profit (loss)	-2.1	0.5	1.8	2.6	-0.5	5.6	0.7	1.7



The fluctuations in sales are, for the most part, due to changes in volume. Sales are also affected by the value of the US dollar as approximately 27% of our sales are priced in US dollars. Sales were 2.8% lower in the quarter ended March 31, 2014 than in the previous quarter, ended December 31, 2013 and 3.2% higher than in the quarter ended March 31, 2013.

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. The increase in cost of sales during the quarter ended March 31, 2014 is due to an increase in the price of raw materials.

### **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.

	<u>Amount at July 21, 2014</u>
Authorized common shares	Unlimited
Issued common shares	33,260,800
Shares issuable on exercise of outstanding warrants	405,000
Shares issuable on exercise of outstanding stock options	-
Shares available for future stock option grants	2,000,000

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 2016, subject to further renewal or amendment. 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.

### **Other Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's web-site at [www.westbond.ca](http://www.westbond.ca).



July 22, 2014

## **Independent Auditor's Report**

### **To the Shareholders of WestBond Enterprises Corporation**

We have audited the accompanying consolidated financial statements of WestBond Enterprises Corporation, which comprise the consolidated statements of financial position as at March 31, 2014 and March 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation as at March 31, 2014 and March 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**WestBond Enterprises Corporation**  
**Consolidated Statements of Financial Position**  
(Canadian Dollars)

	Notes	March 31 2014 \$	March 31 2013 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment	5, 18	2,495,144	2,566,419
Lease deposits		58,456	22,433
Deferred tax asset	8	16,859	-
		2,507,459	2,588,852
<b>Current Assets</b>			
Inventory	6	1,189,989	1,197,797
Trade and other receivables		740,645	818,181
Prepaid expenses		27,233	26,354
Cash and cash equivalents		1,638,407	76,157
		3,596,274	2,118,489
<b>Total Assets</b>		6,166,733	4,707,341
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Common shares issued and outstanding	7	3,839,080	2,099,703
Warrants	7	11,745	-
Contributed surplus		286,874	286,874
Retained earnings		822,120	775,465
<b>Equity attributable to common shareholders</b>		4,959,819	3,162,042
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Deferred tax liability	8	533,722	513,428
<b>Current Liabilities</b>			
Revolving bank loans	9	-	237,000
Term bank loans	10	44,432	116,660
Trade and other payables	11	628,760	678,211
		673,192	1,031,871
<b>Total Liabilities</b>		1,206,914	1,545,299
<b>Total Equity and Liabilities</b>		6,166,733	4,707,341
<b>Commitments</b>	18		

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 Comprehensive Income**  
(Canadian Dollars)

	Notes	<u>Year ended March 31</u>	
		<u>2014</u>	<u>2013</u>
		\$	\$
<b>Sales</b>		6,599,440	6,324,479
<b>Cost of sales</b>	12	<u>5,256,808</u>	<u>4,972,877</u>
<b>Gross Profit</b>		1,342,632	1,351,602
<b>Selling and distribution expenses</b>	13	631,513	594,695
<b>General and administrative expenses</b>	14	<u>589,037</u>	<u>594,722</u>
<b>Operating Profit</b>		122,082	162,185
<b>Foreign exchange losses</b>		20,720	9,970
<b>Gain on disposal of equipment</b>		-	(30,426)
<b>Interest expense</b>		<u>6,166</u>	<u>18,930</u>
<b>Profit Before Tax</b>		95,196	163,711
<b>Income tax expense</b>	8	<u>48,541</u>	<u>43,049</u>
<b>Profit and Comprehensive Income</b>		<u>46,655</u>	<u>120,662</u>
<b>Weighted average shares outstanding</b>		<u>21,270,466</u>	<u>11,063,800</u>
<b>Earnings per share, basic</b>		<u>0.002</u>	<u>0.011</u>
<b>Dilutive effect of warrants outstanding</b>	15	57,271	-
<b>Fully diluted weighted average shares outstanding</b>		<u>21,327,737</u>	<u>11,063,800</u>
<b>Earnings per share, fully diluted</b>		<u>0.002</u>	<u>0.011</u>

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

**WestBond Enterprises Corporation**  
**Consolidated Statements of Changes in Equity**  
(Canadian Dollars)

	Common Shares	Warrants	Stock Options	Contributed Surplus	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$
<b>Balance as at March 31, 2012</b>	2,099,703	32,364	254,510	-	654,803	3,041,380
<b>Warrants and Stock Options that Expired Unexercised During the Year</b>	-	(32,364)	(254,510)	286,874	-	-
<b>Profit for the Year</b>	-	-	-	-	120,662	120,662
<b>Balance as at March 31, 2013</b>	2,099,703	-	-	286,874	775,465	3,162,042
<b>Shares Issued for Cash</b>	1,810,230	-	-	-	-	1,810,230
<b>Share Issue Costs</b>	(70,853)	11,745	-	-	-	(59,108)
<b>Profit for the Year</b>	-	-	-	-	46,655	46,655
<b>Balance as at March 31, 2014</b>	3,839,080	11,745	-	286,874	822,120	4,959,819

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

**WestBond Enterprises Corporation**  
**Consolidated Statements of Cash Flows**  
(Canadian Dollars)

	Notes	Year ended March 31	
		2014	2013
		\$	\$
<b>Operating Activities</b>			
Profit		46,655	120,662
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation		331,429	317,850
- gain on disposal of equipment		-	(30,426)
- interest expense		6,166	18,930
- interest paid		(6,512)	(19,127)
- income tax expense		48,541	43,049
- income tax paid		(20,303)	(2,998)
Cash flows from operating activities before changes in non-cash working capital		405,976	447,940
(Increase) decrease in			
- inventory		7,808	(98,545)
- trade and other receivables		77,536	(6,270)
- prepaid expenses		(879)	7,975
(Decrease) increase in			
- deferred tax liability		20,049	27,345
- trade and other payables		(24,169)	(88,080)
Net Cash Flows from Operating Activities		486,321	290,365
<b>Investing Activities</b>			
Purchase of plant and equipment	16	(309,174)	(150,410)
Proceeds from disposal of equipment		-	39,135
Lease deposits		(36,023)	-
Net Cash Flows from Investing Activities		(345,197)	(111,275)
<b>Financing Activities</b>			
Issuance of common shares for cash		1,810,230	-
Share issue costs		(79,876)	-
Term loan proceeds		-	-
Repayment of term loans		(72,228)	(61,116)
(Decrease) increase in revolving bank loans		(237,000)	(140,000)
Net Cash Flows from Financing Activities		1,421,126	(201,116)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		1,562,250	(22,026)
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		76,157	98,183
<b>Cash and Cash Equivalents at the End of the Year</b>		1,638,407	76,157

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



# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2014 and 2013

(Canadian Dollars)

### 1. GENERAL INFORMATION

WestBond Enterprises Corporation and its subsidiary, WestBond Industries Inc., (together, the company) are a paper converter that manufactures disposable products for medical, hygienic and industrial uses. The company's manufacturing facilities are in Canada and its sales are primarily to Canada and the United States of America. The company is incorporated in British Columbia, Canada, and has its principal place of business at 7403 Progress Way, Unit 101, Delta, British Columbia.

The consolidated financial statements of the company for the year ended March 31, 2014 were authorized for issue by resolution of the directors on July 21, 2014.

### 2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention.

### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

#### Consolidation

These consolidated financial statements consolidate the accounts of WestBond Enterprises Corporation and its wholly-owned subsidiary, WestBond Industries Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

#### Functional and Presentation Currency and Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the company operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the consolidated statements of comprehensive income.

#### Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

Depreciation is charged to profit using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

Factory equipment	- 3 to 25 years
Leasehold improvements	- 5 to 10 years
Office equipment	- 3 to 15 years

The company allocates the cost initially recognized in respect of an item of plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation

## **WESTBOND ENTERPRISES CORPORATION**

### **Notes to the Consolidated Financial Statements**

**March 31, 2014 and 2013**

**(Canadian Dollars)**

#### **3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)**

and useful lives of the plant and equipment are reviewed annually and adjusted if appropriate. Depreciation is not charged on assets until they are available for use in the location and condition necessary to be capable of operating in the manner intended by management.

Plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit or CGU). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. When events or circumstances warrant, impairment losses are evaluated for potential reversals.

##### **Inventory**

Inventory is measured at the lower of cost and net realizable value. Raw materials inventory costs include all costs incurred to bring the materials to their current state and location, including the purchase price, duties, non-refundable taxes and freight. Finished goods inventory includes, in addition to the cost of the raw materials incorporated into their manufacture, the costs of labour incurred directly in their manufacture and an allocation of indirect variable overhead, fixed overhead and depreciation on plant and equipment. Costs are assigned to inventory on a first-in, first-out basis. The overhead allocation is based on the proportionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

##### **Financial Instruments**

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) **Financial Assets at Amortized Cost:** Financial assets are initially measured at fair value and classified as subsequently measured at amortized cost or fair value on the basis of the business model for managing the financial asset and the contractual cash flow characteristics of the financial assets. A financial asset is subsequently measured at amortized cost only if it is held in a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The company's trade and other receivables are in this category and are subsequently measured at amortized cost using the effective interest method less a provision for impairment. Gains or losses on financial assets in this category are recognized in profit or loss when the financial asset is derecognized, impaired or reclassified.
- (ii) **Financial Assets at Fair Value:** Financial assets not meeting the criteria for subsequent measurement at amortized cost are initially and subsequently measured at fair value. The company's cash and cash equivalents are in this category. Gains or losses arising from changes in fair value are recognized in profit or loss unless the financial asset is an equity instrument that is not held for trading and the company has made an irrevocable election at initial recognition to present subsequent changes in its fair value in other comprehensive income.

## **WESTBOND ENTERPRISES CORPORATION**

### **Notes to the Consolidated Financial Statements**

**March 31, 2014 and 2013**

**(Canadian Dollars)**

#### **3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)**

(iii) **Financial Liabilities at Amortized Cost:** Financial liabilities at amortized cost include trade and other payables and loans. Trade and other payables are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Subsequently, payables are measured at amortized cost using the effective interest method. Loans are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

(iv) **Financial Liabilities at Fair Value through Profit or Loss:** A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial liabilities in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of comprehensive income. Gains and losses arising from changes in fair value are presented in the consolidated statements of comprehensive income within other gains and losses in the period in which they arise. The company holds no instruments classified in this category.

#### **Impairment of financial assets**

At each reporting date the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss. The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

#### **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 90 days of deposit.

#### **Stock-Based Compensation Plan**

The company has a stock-based compensation plan that permits the directors of the company to grant incentive stock options to its employees, directors and consultants. Stock options generally vest over eight quarters (12.5% per quarter) and expire after five years. Each vesting block in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each block is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense for options granted to employees and directors, or the cost of goods or services acquired in exchange for options granted to non-employees, is recognized over each block's vesting period by reflecting a contribution to shareholders' equity based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

#### **Income Tax**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

## **WESTBOND ENTERPRISES CORPORATION**

### **Notes to the Consolidated Financial Statements**

**March 31, 2014 and 2013**

**(Canadian Dollars)**

#### **3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)**

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

##### **Revenue**

Revenue is recognized in the period during which the significant risks and rewards of ownership pass to the purchaser, it is probable that the economic benefits will flow to the company, the amount of revenue and costs incurred can be reliably measured and the company retains no managerial or effective control over the goods sold. This is when the goods are shipped. Revenue is measured based on agreed upon prices, net of estimated returns, discounts and rebates.

##### **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 warrants and that the assumed proceeds 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.

##### **Leased Premises**

The Company conducts its operations from leased premises. Rent expense is recorded on a straight-line basis over the term of the lease beginning on the possession date. Accordingly, reasonably assured rent escalations are amortized over the lease term, and free-rent periods are allocated to a portion of rent expense. The difference between the recognized rental expense and the total rental payments is reflected on the consolidated balance sheets as a deferred lease liability.

Lease inducements, including cash and the reimbursement of costs incurred by the Company for leasehold improvements, are deferred and accounted for as a reduction of rent expense over the term of the related lease on a straight-line basis.

Other operating payments associated with leased premises are recorded in the period in which the expenses occur.

##### **Judgments and Estimates**

The preparation of consolidated financial statements requires the company's management to make judgments, assumptions and estimates 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 judgments and estimates are made in the determination of the net realizable value of inventories and the useful lives of plant and equipment.

The company adjusts inventory values so that the carrying value does not exceed the net realizable value. This requires the use of estimates of the inventory that will be sold, the prices at which it will be sold, and an assessment of expected orders from customers. The estimates also reflect changes in products and changes in demand due to obsolescence and competition.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2014 and 2013

(Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (continued)

The company bases the amount of depreciation charged against plant and equipment on estimates of the expected useful life of each component of plant and equipment. The estimates consider normal wear and tear, obsolescence and continued usefulness to the company.

##### New and Revised Accounting Standards

The company adopted *IFRS 13- Fair Value Measurements* during the year. IFRS 13 defines fair value, establishes a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The application of IFRS 13 did not have a material impact on the consolidated financial statements.

*IAS 32 – Financial Instruments: Presentation*, has been amended effective for our year ending March 31, 2014. The amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The company does not expect this amendment to have a material impact on the consolidated financial statements.

*IAS 36 – Impairment of Assets*, has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The company does not expect this amendment to have a material impact on the consolidated financial statements.

#### 4. FINANCIAL INSTRUMENTS

The company has various financial instruments including accounts receivable, cash and cash equivalents, revolving bank loans, term bank loans, and trade and other payables. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Accounts receivable and all financial liabilities are carried at amortized cost.

IFRS establishes a fair value hierarchy that requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The company primarily applies the market approach for recurring fair value measurements. The section describes three input levels that may be used to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents are measured using level 1 inputs. Trade and other receivables, revolving bank loans, and trade and other payables are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of the term loans approximates the carrying value because the interest rates are at fluctuating market rates.

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. Trade and other receivables are the result of sales to a relatively wide customer base, primarily in North America. The company only deals with

## **WESTBOND ENTERPRISES CORPORATION**

### **Notes to the Consolidated Financial Statements**

**March 31, 2014 and 2013**

**(Canadian Dollars)**

#### **4. FINANCIAL INSTRUMENTS (continued)**

customers that it considers creditworthy. At March 31, 2014, \$19,223 (2013 – \$18,777) of trade and other receivables were between 31 and 60 days past due and \$9,202 (2013 – \$11,635) were more than 60 days past due. The company does not consider these accounts impaired based on a review of the debtors' operations and subsequent payments. During the year ended March 31, 2014, the company wrote off \$414 in trade and other receivables (2013 – \$nil). At March 31, 2014 the amount of \$144,013 (2013 – \$198,402) was due from one customer, representing 19% (2013 – 24%) of trade and other receivables. The customer is part of a large multinational corporate group and is highly creditworthy.

The company's revolving bank loans and term bank loans are at interest rates that fluctuate with market interest rates. At the levels of indebtedness at March 31, 2014, a 1% increase or decrease in the annual rate of interest would cause interest expense to increase or decrease and operating cash flows to decrease or increase, respectively, by \$444 per year.

Portions of the company's cash, trade and other receivables and trade and other payables are denominated in US dollars; accordingly, the company is exposed to fluctuations in the US/Cdn dollar exchange rates. While the amounts of exposure change on a daily basis, the company generally has more US dollar financial assets than US dollar liabilities. Over the past year, the exposure ranged from US\$110,000 net assets to US\$35,000 net liabilities and averaged approximately US\$70,000 net assets (calculated on a quarterly basis) and, at March 31, 2014, was US\$4,173 net assets. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.10 to Cdn\$1.09) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn\$700 on an exposure of US\$70,000. During the year ended March 31, 2014, the company realized foreign exchange losses of \$20,720 (2013 – \$9,970). The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2014 and 2013

(Canadian Dollars)

#### 5. PLANT AND EQUIPMENT

	Factory equipment \$	Leasehold improvements \$	Office equipment \$	Deposits on equipment under construction \$	Total \$
<b>At March 31, 2012</b>					
Cost	4,907,076	45,298	100,600	-	5,052,974
Accumulated depreciation	(2,235,347)	(39,430)	(88,118)	-	(2,362,895)
Net book value	<u>2,671,729</u>	<u>5,868</u>	<u>12,482</u>	<u>-</u>	<u>2,690,079</u>
Additions	178,844	-	5,454	18,601	202,899
Disposals – cost	(53,237)	-	(2,017)	-	(55,254)
Disposals – accumulated depreciation	44,528	-	2,017	-	46,545
Depreciation	<u>(312,001)</u>	<u>(1,439)</u>	<u>(4,410)</u>	<u>-</u>	<u>(317,850)</u>
<b>At March 31, 2013</b>					
Cost	5,032,683	45,298	104,037	18,601	5,200,619
Accumulated depreciation	(2,502,820)	(40,869)	(90,511)	-	(2,634,200)
Net book value	<u>2,529,863</u>	<u>4,429</u>	<u>13,526</u>	<u>18,601</u>	<u>2,566,419</u>
Additions (deposits applied)	255,056	-	23,889	(18,601)	260,344
Disposals – cost	(33,537)	-	(30,989)	-	(64,526)
Disposals – accumulated depreciation	29,651	-	30,989	-	60,640
Depreciation	<u>(317,817)</u>	<u>(2,181)</u>	<u>(7,735)</u>	<u>-</u>	<u>(327,733)</u>
<b>At March 31, 2014</b>					
Cost	5,254,202	45,298	96,937	-	5,396,437
Accumulated depreciation	(2,790,986)	(43,050)	(67,257)	-	(2,901,293)
Net book value	<u>2,463,216</u>	<u>2,248</u>	<u>29,680</u>	<u>-</u>	<u>2,495,144</u>

Included in factory equipment is equipment costing \$315,471 (2013 – \$169,425) that was under construction or refurbishment or had not otherwise been made available for use at year-end.

#### 6. INVENTORY

	2014 \$	2013 \$
Raw materials	894,970	954,067
Finished goods	<u>295,019</u>	<u>243,730</u>
Total inventory	<u>1,189,989</u>	<u>1,197,797</u>

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2014 and 2013**  
**(Canadian Dollars)**

**7. SHARE CAPITAL**

**Authorized**

The Company is authorized to issue an unlimited number of common shares without par value.

<b>Issued</b>	<u>Warrants Issued</u>		<u>Common Shares Issued</u>	
	<u>Number</u>	<u>Ascribed Value</u> \$	<u>Number</u>	<u>Ascribed Value</u> \$
Outstanding at March 31, 2012 and at March 31, 2013	-	-	11,063,800	2,099,703
Issued for cash at \$0.08 per share	-	-	18,750,000	1,500,000
Issued for cash at \$0.09 per share	-	-	3,447,000	310,230
Issued for finder's fee	405,000	11,745	-	(11,745)
Share issue costs	-	-	-	(59,108)
Outstanding at March 31, 2014	<u>405,000</u>	<u>11,745</u>	<u>33,260,800</u>	<u>3,839,080</u>

The warrants entitled the holder to purchase one common share at \$0.08 per share until September 18, 2014. The fair value ascribed to the warrants was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.26%, a dividend yield of 0%, an expected warrant life of 1 year and a volatility of 49%.

**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 vest over eight quarters (12.5% per quarter) and expire after five years. 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.

No stock options were granted, vested, exercised or forfeited during the years ended March 31, 2014 and 2013. The options outstanding at March 31, 2012 entitled the holders to purchase 800,000 shares at \$0.10 per share and expired on March 12, 2013 without being exercised.

**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 will remain in effect until the close of the company's annual general meeting in 2016, subject to further renewal or amendment. 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 circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.



**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2014 and 2013**  
**(Canadian Dollars)**

**8. INCOME TAX**

The components of the company's deferred income tax asset and liability are the tax effects of temporary differences in the tax and accounting bases of:

	2014	2013
	\$	\$
Deferred tax asset arising from share issue costs deductible in future periods	16,859	-
Depreciation of plant and equipment	537,816	515,302
Other tax deductions carried forward	(4,094)	(1,874)
Total future income tax liability	533,722	513,428

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

	2014	2013
Combined statutory rate	26.00%	25.00%
	\$	\$
Income tax expense based on the statutory rates	24,751	40,928
Tax effect of expenses that are not deductible for income tax purposes	3,243	2,121
Effect of increases in the statutory tax rates	20,548	-
Income tax expense for the year	48,541	43,049
Current portion	28,492	15,704
Deferred portion	20,049	27,345

**9. REVOLVING BANK LOANS**

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 over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$700,000 are not included in the calculation. The loan outstanding under the facility bears interest at bank prime rate plus 0.75% 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.

The company has covenanted with the bank to maintain its consolidated ratio of current assets to current liabilities at 1.20:1 or higher and its consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower. Commencing March 2016 the company must maintain its ratio of net income before extraordinary and other non-recurring items plus interest, income tax, depreciation and amortization (EBITDA) to interest expense plus the current portion of long term debt and capital leases at 1.25:0 or higher.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

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(Canadian Dollars)

#### 10. TERM BANK LOANS

During the year ended March 31, 2012, the company received a \$200,000 non-revolving term loan. The loan bears interest at bank prime plus 1%, payable monthly. The loan is re-payable in monthly principal instalments of \$5,556 and the final payment of the balance of principal and interest is due November 30, 2014 (which was extended during the year ended March 31, 2014 from August 30, 2013). A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

During the year ended March 31, 2014 the company negotiated a \$5,000,000 term loan credit facility for the purchase of certain production equipment. Loans under the facility are to be fully drawn down by September 30, 2015. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing 12 months after final draw with a final payment of the balance of principal 24 months after final draw. Interest is payable monthly at bank prime plus 1.5% per annum. A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets will be pledged as collateral.

#### 11. TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Payable to suppliers for trade purchases	457,222	514,567
Payable to employees for wages and expenses	85,077	82,892
Payable to governments for withholding, sales and income taxes	46,407	43,602
Accrued liabilities	40,054	37,150
	<u>628,760</u>	<u>678,211</u>

#### 12. COST OF SALES

	2014	2013
	\$	\$
Materials	3,592,517	3,326,153
Production labour	493,246	458,586
Factory overhead labour	252,405	262,869
Variable overhead	142,759	160,293
Fixed overhead	452,187	451,536
Depreciation	323,694	313,440
	<u>5,256,808</u>	<u>4,972,877</u>

#### 13. SELLING AND DISTRIBUTION EXPENSES

	2014	2013
	\$	\$
Shipping	479,783	448,373
Wages, commissions and other employee benefits	135,188	121,666
Other	16,542	24,656
	<u>631,513</u>	<u>594,695</u>

**WESTBOND ENTERPRISES CORPORATION**  
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**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	2014	2013
	\$	\$
Administration and office	138,020	175,116
Corporate promotion	12,445	7,753
Professional fees	77,654	58,219
Salaries and other employee benefits	360,918	353,634
	<u>589,037</u>	<u>594,722</u>

**15. EARNINGS PER SHARE**

The potential effect on earnings per share of the warrants and stock options outstanding during the years ended March 31, 2013 was anti-dilutive; accordingly, they were excluded from the calculation of diluted earnings per share. If the average market price exceeds the exercise price of the warrants and stock options, the warrants and stock options will have a potential dilutive effect on earnings per share.

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

During the year ended March 31, 2014, trade and other payables related to the purchase of plant and equipment decreased by \$49,020 (2013 – increased by \$52,489) and current income tax savings of \$4,154 (2013 – \$nil) and deferred income tax savings of \$16,614 (2013 – \$nil) were reflected directly in equity against share issue costs.

**17. SEGMENTED INFORMATION**

The company operates in one industry, the disposable paper and polyethylene industry. The company's plant and equipment are located in Canada. During the year ended March 31, 2014, the company had domestic sales in Canada of \$4,822,819 (2013 – \$4,879,332) and export sales to the United States of \$1,776,621 (2013 – \$1,445,147). During the year ended March 31, 2014, the company had sales to three customers of \$2,738,819 (2013 – three customers of \$2,738,518) each of whom represented more than 10% of sales.

**18. COMMITMENTS**

During the year ended March 31, 2014 the company entered into an operating lease for premises, commencing June 1, 2014 and ending September 30, 2029. Future minimum lease payments are as follows:

Years ending March 31	\$
2015	135,237
2016	284,668
2017 – 2019	298,862
2020	311,767
2021 – 2022	324,671
2023	337,575
2024	350,479
2025	356,932
2026 – 2027	363,384
2028	369,836
2029	376,288
2030	188,621

## **WESTBOND ENTERPRISES CORPORATION**

### **Notes to the Consolidated Financial Statements**

**March 31, 2014 and 2013**

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#### **18. COMMITMENTS (continued)**

Operating costs and property taxes for the premises, currently estimated at \$110,000 per year, are payable in addition to the minimum lease payments.

The company also has operating lease agreements for premises which expire in June 2014 and August 2014. Future minimum lease payments are \$107,636 during the year ending March 31, 2015. Operating costs and property taxes for the premises, currently estimated at \$45,000 for the period, are payable in addition to the minimum lease payments.

During the year ended March 31, 2014, the company expensed \$304,574 (2013 – \$314,560) in minimum lease payments, and \$131,804 (2013 – \$121,728) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

The company has committed to the purchase of equipment in the amount of €3,593,163 (European euros), equivalent to \$5,471,309 at the March 31, 2014 exchange rate of €1.00=Cdn\$1.5227. Subsequent to March 31, 2014, the company committed to the purchase of additional equipment in the amount of €302,216, made payments of €1,129,884 against the commitments, issued irrevocable bank letters of credit for the balance and entered into forward exchange contracts to purchase €2,317,431 at a weighted average exchange rate of €1.00=Cdn\$1.4804. The bank letters of credit and forward exchange contracts are supported by the \$5,000,000 term bank loan facility (note 10).

#### **19. RELATED PARTY TRANSACTIONS**

During the year ended March 31, 2014:

- The company issued a total of 8,737,500 common shares for cash at \$0.08 per share and 627,222 common shares for cash at \$0.09 per share to three directors of the company and close members of their families. The shares were issued on the same terms as shares issued to parties not related to the company (note 7);
- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, taxes and perquisites), of \$335,215 (2013 – \$323,637) to directors and officers of the company; and
- The company incurred \$73,354 (2013 – \$9,052) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. At March 31, 2014, trade and other payables include \$8,054 (2013 – \$2,618) due to the firm.

#### **20. CAPITAL DISCLOSURES**

The company manages share capital, warrants, stock options and retained earnings as capital. The company's objectives when managing capital are: to safeguard the ability of the company to continue as a going concern; to permit the company to continue expanding its operations, to the extent compatible and economically viable expansion opportunities are available; and to maximize shareholder returns. The company employs policies and processes for managing capital: to ensure that the covenants and terms under its bank indebtedness and term loans are complied with; to ensure that adequate prices are received for the company's production to maximize operating cash flows; and to maximize shareholder returns.