



# ***WESTBOND ENTERPRISES CORPORATION***

## ***2016 Annual Report***

**WestBond Enterprises Corporation  
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# WestBond Enterprises Corporation

## Management Discussion and Analysis

dated June 20, 2016, to accompany the consolidated financial statements for the year ended March 31, 2016

**Caution Regarding Forward Looking Statements – *This discussion includes statements about our expectations for the future. We believe that our expectations are reasonable; however, actual outcomes may differ materially from our expectations due to changes in operating performance, availability of and prices for raw materials, availability of trained labour, foreign currency exchange rate fluctuations, unexpected competition, and other technical, market and economic factors.***

### Description of Our Business

We, WestBond Enterprises Corporation (“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, 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). We are expanding into a fourth product line, table top products, which include high quality air laid napkins.

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.

We sell a full range of air laid napkins (table top) to major food service distributors in Canada and the United States. Sales of these high quality air laid products are expanding quickly.

Our plant equipment enables us to provide a comprehensive range of products for each of our product lines and allows us to utilize a wide variety of paper supplies, enabling us to take advantage of good raw material pricing opportunities. We also have equipment that will allow us to produce facial tissue and other air laid products. This tissue line will be brought into production during the 2017 fiscal year.

We started production on our binder bonded air laid paper making machine in August 2015. The machine can produce up to 150 metric tons of air laid paper per month at a significantly lower cost than current purchase prices. We use 30% - 40% of the production capacity of the machine for our own finished products and intend to sell production from surplus capacity to other paper converters.

**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, 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, 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.

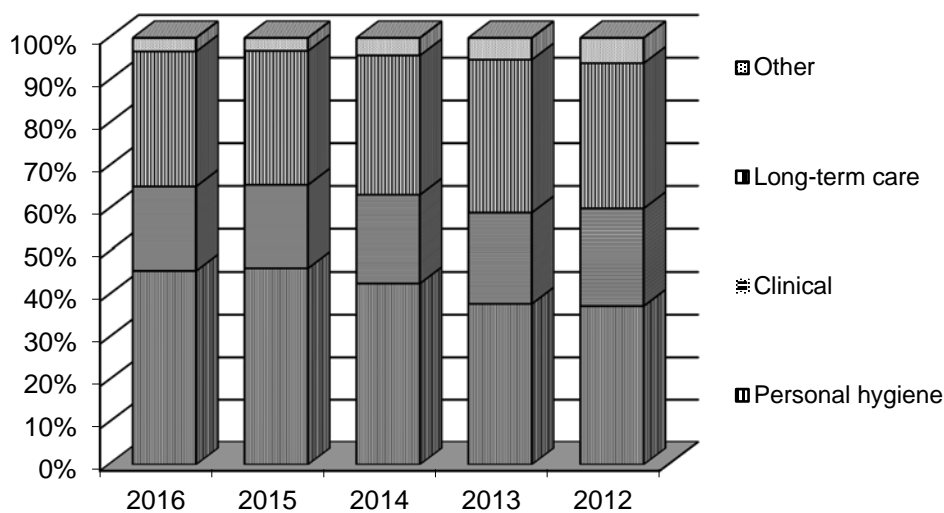
**Long-Term Care Products** – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes, mitts and underlays. All products 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.

**Table Top Products** – This is a new product line for us and includes high quality air laid napkins. These napkins replace costly linen napkins and can also out-perform conventional paper napkins, reducing operating costs of many restaurants. These products are sold through major food service distributors. The addition of our own air laid paper making machine will allow us to grow this business substantially.

These four 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, 2012 through 2016. Table top products are included with “Other” sales in the chart.



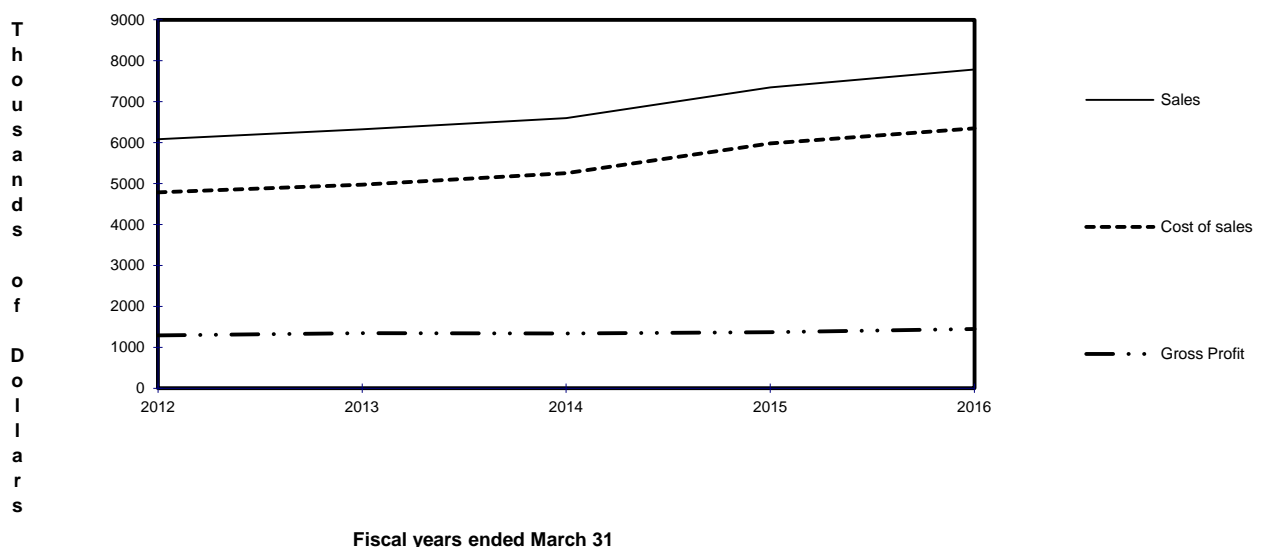
## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2016 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.

We realized a profit of \$52,878 for the year ended March 31, 2016 compared to a loss of \$431,223 for the year ended March 31, 2015 and a profit of \$46,655 for the year ended March 31, 2014. Our gross profit margin realized during 2016 was 18.6%, compared to 18.6% for 2015 and 20.3% for 2014. Our gross profit margins dropped due to unfavourable raw materials costs and usage variances. 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.

Three non-recurring expenses impacted the loss for 2015: \$172,209 in relocation expenses, \$96,200 in stock option expense and \$264,998 in losses on forward currency exchange contracts. We relocated our factory, warehouse and offices during the 2015 fiscal year into one facility that is 20% larger than our previous two facilities combined. No stock options had been granted since 2008. We entered into the forward currency exchange contracts in order to hedge our euro denominated commitments to purchase equipment. The exchange rates were changing rapidly and we wanted to ensure that the exchange rate did not cause the commitments to exceed our available financing. While the contracts ensured that our commitments were successfully economically hedged at the forward rates, the contracts did not meet the stringent accounting standards for hedge accounting, which would have added the loss to the cost of the equipment.

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,					
	2016		2015		2014	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	7,788,049	100.0	7,349,416	100.0	6,599,440	100.0
Cost of sales	6,343,668	81.5	5,981,539	81.4	5,256,808	79.7
Gross profit	1,444,381	18.5	1,367,877	18.6	1,342,632	20.3
Selling and distribution expenses	607,098	7.8	664,592	9.0	631,513	9.6
General and administrative expenses	635,894	8.2	699,283	9.5	589,037	8.9
Other expenses and (income)	135,335	1.7	456,102	2.6	26,886	0.4
Profit (loss) before tax	66,054	0.8	(452,100)	-2.5	95,195	1.4
Income tax expense (recovery)	13,176	0.1	(20,877)	-0.3	48,541	0.7
Profit (loss) and comprehensive income (loss)	52,878	0.7	(431,223)	-2.2	46,655	0.7
(Loss) earnings per share, basic and diluted	0.002		(0.013)		0.002	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2016	2015	2014
	\$	\$	\$
Non-Current Assets	9,236,537	8,052,867	2,507,459
Current Assets	2,184,489	2,031,030	3,596,274
Total assets	11,421,026	10,083,897	6,166,733
Non-Current Liabilities	5,231,669	3,756,939	533,722
Current liabilities	1,479,283	1,669,762	673,192
Shareholders' equity	4,710,074	4,657,196	4,959,819

### Sales

Sales were \$7,788,049 for the year ended March 31, 2016, a 6.0% increase over the year ended March 31, 2015. The table below summarizes the sales of the Company for the last five fiscal years.

	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Personal hygiene products	3,550,791	3,396,874	2,815,772	2,396,857	2,272,271
Clinical products	1,531,332	1,425,965	1,361,185	1,342,068	1,380,663
Long-term care products	2,458,934	2,303,404	2,152,750	2,264,003	2,067,114
Other products	246,992	223,173	269,733	321,551	358,415
Total sales	7,788,049	7,349,416	6,599,440	6,324,479	6,078,464
Change over previous year	6.0%	11.4%	4.3%	4.0%	-0.1%

Sales increased in all product categories. The increase was caused by strong demand and weaker competition from the United States due to higher US dollar exchange rates. The long-term care market continues strong due to the aging population. Approximately 33% of our sales in 2016 were priced in US dollars, compared with 34% for 2015 and 27% for 2014, 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.

	2016		2015		2014		2013		2012	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	3,988,802	51.2	4,182,552	56.9	3,592,517	54.4	3,326,153	52.6	3,189,726	52.5
Production labour	769,251	9.9	588,880	8.0	493,246	7.5	458,586	7.3	492,228	8.1
Factory overhead										
labour	351,201	4.5	281,780	3.8	252,405	3.8	262,869	4.2	257,186	4.2
Variable overhead	267,470	3.4	210,670	2.8	142,759	2.2	160,293	2.5	153,867	2.5
Fixed overhead	494,160	6.3	385,463	5.2	452,187	6.9	451,536	7.1	442,116	7.3
Depreciation	472,784	6.1	332,194	4.5	323,694	4.9	313,440	4.9	251,758	4.2
<b>Total cost of sales</b>	<b>6,343,668</b>	<b>81.4</b>	<b>5,981,539</b>	<b>81.4</b>	<b>5,256,808</b>	<b>79.7</b>	<b>4,972,877</b>	<b>78.6</b>	<b>4,786,881</b>	<b>78.8</b>

Our cost of sales structure is changing as a result of bringing our air laid paper machine into production. Materials costs are lower and labour, overhead and depreciation are higher. The change commenced mid-way during the 2016 fiscal year. The net effect will be a higher gross margin as production from the machine increases. Currently the lower overall variable costs only offset the higher fixed costs.

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. All of our products have a high materials component and a low labour component.

Paper yields, the amount of product that a certain weight of paper produces, were unfavourable during the 2016 and 2015 fiscal years, increasing direct materials costs by a factor of 1.6% of sales. Paper prices were adversely affected by the increased US dollar exchange rate, as most of our paper supply is purchased in US dollars, however lower US dollar prices for most paper grades offset higher prices paid for other grades and the US exchange rate effect. The rest of the increase in materials cost as a percentage of sales during 2015 is due to the product mix. Most of the increase in sales during 2015 was in industrial hygiene products, which have a lower margin than most of our other products.

Paper prices increased during the 2016, 2015 and 2014 fiscal years 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%.

Production labour in cost of sales averaged 9.9% of sales during 2016, up from 8.0% of sales during 2015 and 7.5% in 2014. The increase is due to higher wage rates and to additional employees hired to operate the air laid paper machine. 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 as a percentage of sales in 2016 to support the new air laid paper machine. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2016 is higher than previous years due to increased electricity and gas to operate the air laid paper machine.

Fixed overhead in 2016 includes \$99,692 in higher rent and \$9,005 in higher insurance premiums to cover the air laid paper machine, over the expense in 2015. Rent was \$66,724 lower during 2015 than 2014 because we terminated the lease on our warehouse at the end of June 2014 and we received a refund for lease operating expenses at our previous factory that had been overcharged (lease operating expenses are billed monthly at estimated costs for the year and adjusted annually to reflect actual costs). Higher rent added \$8,369 to fixed overhead in 2013 and \$7,970 in 2012. Increases in depreciation expense are the result of bringing new equipment into use.

During our 2013 fiscal year, one of our non-airlaid paper suppliers closed local paper machines that supplied us and we now import more of our paper from the United States, which increases our exposure to delivery delays and to fluctuations in US dollar exchange rates. We expanded our range of non-airlaid paper suppliers to try and ensure an uninterrupted supply of those paper grades as the inability to obtain paper at our current input prices can result in lost product sales or in higher materials costs.

### ***Selling Expenses***

Selling expenses are lower, as a percentage of sales, in 2016 than in 2015 because of lower sales commissions and shipping rates.

### ***General and Administrative Expenses***

General and administrative costs were lower in 2016 than in 2015, primarily due to stock option expense in 2015 of \$88,985, not incurred in 2016.

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, 2016, trade and other receivables include \$30,063 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 2016 we had bad debt losses of \$1,141 compared to \$2,566 for 2015.

During the year ended March 31, 2016, professional fees include \$12,673 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, 2016, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$355,512 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$328,202 of the compensation is included in general and administrative salaries and employee benefits, \$22,361 is included in administration and office and \$4,949 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 trade and other payables 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\$9,180 net assets to US\$123,416 net liabilities and averaged US\$60,671 net liabilities (calculated on a monthly basis) and at March 31, 2016 net liabilities were US\$122,817. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.26 to Cdn\$1.27) 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\$1,228 on an exposure of US\$122,817. During the year ended March 31, 2016 we realized a foreign exchange loss of \$21,170 compared to a gain of \$48 in 2015. 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.

We realized a gain on forward currency exchange contracts of \$24,485 during the year ended March 31, 2016 compared to a loss of \$264,998 in 2015. In July 2014 we entered into forward exchange contracts to purchase €2,317,430 at a weighted average exchange rate of €1.00 = Cdn\$1.4804 in order to hedge some of our euro denominated commitments to purchase equipment. The exchange rates were changing rapidly and we wanted to ensure that the exchange rate did not cause the commitments to exceed our available financing. While the contracts ensured that our commitments were successfully economically hedged at the forward rates, the contracts did not meet the stringent accounting standards for hedge accounting, which would have included the gain and loss in the cost of the equipment. The loss is treated as a capital loss for income tax purposes, only half of which is allowable as a loss that can only be applied to capital gains. Due to the nature of our business, it is not likely that we will generate capital gains to use against this unapplied loss so we have provided a full allowance to reduce the potential value to zero.

Relocation expenses incurred to move our offices and equipment to our new premises totalled \$172,209 for the year ended March 31, 2015.

Interest on our revolving bank loan and term bank loan fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2016, a 1% increase in the prime rate of interest would increase total interest expense by \$51,011 per year.

## Liquidity and Capital Resources

Our operating cash flows were \$752,929 during the year ended March 31, 2016, an average of \$62,744 per month, compared to \$27,182 per month during 2015, before accounting for fluctuations in non-cash working capital. At March 31, 2016, we had cash of \$117,279 and working capital of \$705,206 compared to cash of \$96,410 and working capital of \$361,268 at March 31, 2015. The increase is due to improved operating cash flows and to term loan proceeds (which paid off accounts payable at March 31, 2015 related to equipment purchases).

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 re-pay term bank loans.

We have a revolving bank loan facility of \$1,500,000, of which \$101,095 was used at March 31, 2016. 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 \$1,500,000 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 \$300,000. 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 also have a \$5,000,000 term loan credit facility for the purchase of our binder bonded air laid paper making machine, which was fully drawn at March 31, 2016. Repayment of the loan is in 11 monthly instalments of \$59,524 commencing September 22, 2016 with a final payment of the \$4,345,236 balance of principal on August 22, 2017. We intend to get annual one-year extensions of the final payment date at least one year before the final payment date so that no more than \$714,288 (twelve monthly payments of \$59,524) of the term loan is current at any time. 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 are pledged as collateral.

We have covenanted with the bank to maintain our consolidated ratio of current assets to current liabilities at 1.20:1 or higher, our consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and our consolidated 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 1.25:1. We are in compliance with all of these covenants at March 31, 2016. We may have difficulty maintaining compliance with the EBITDA to debt and interest ratio at June 30, 2016. If we are not compliant and are unable to obtain a waiver from the bank by June 30, 2016, all \$5,000,000 of the loan will become payable on demand.

In September 2015 we completed the last of our equipment purchase commitments, which totaled €448,065 (European euros) at March 31, 2015.

The binder bonded air laid paper making machine went into production during the last week of August 2015. We are pleased that the project completed on budget. We are excited to be making our own air laid paper and expect to realize significant improvements in our operating performance. We are now producing all of the air laid paper used in our own products. We are pursuing bulk air laid paper sales to other paper converters to utilize the remaining machine capacity.

Our budget for the purchase and installation of the binder bonded air laid paper making machine was \$7,000,000. The project was completed at a cost of \$7,106,891, including the \$240,513 net loss on forward currency exchange contracts.

We intend to spend around \$300,000 for production equipment during the next year, which we will finance from operating cash flows.

### **New Accounting Policies**

The International Accounting Standards Board adopted *IAS 16 Leases* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-



use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Effective for our financial year ending March 31, 2020, we will be required to reflect an asset and related liability for the lease of its premises. We have not yet quantified the impact this will have on our financial position.

The International Accounting Standards Board adopted *IFRS 15, Revenue from Contracts with Customers*, in May 2014 effective for financial years beginning on or after January 1, 2018, which establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. The adoption of this standard will not have any significant impact on our financial statements, other than the disclosure of additional information, which is already provided in this Management Discussion and Analysis.

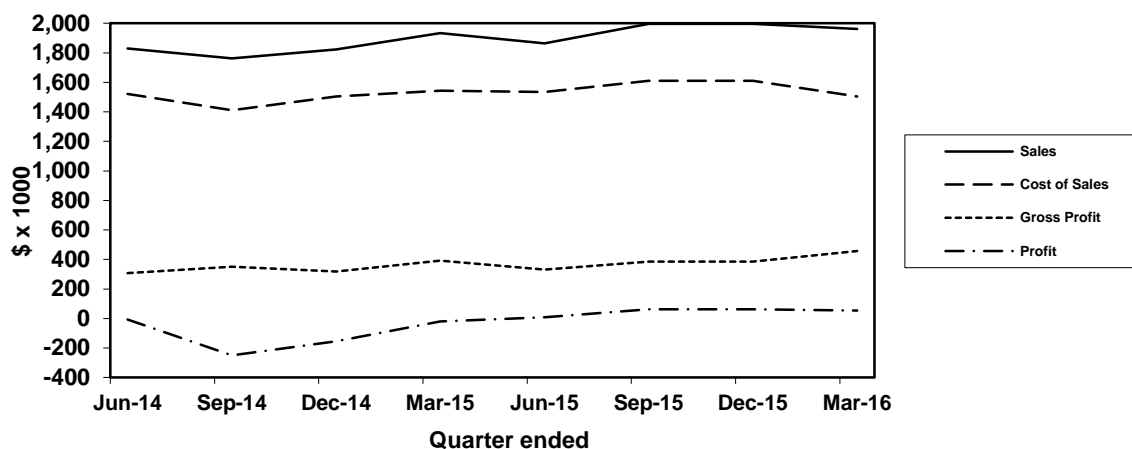
## Summary of Quarterly Results (Unaudited)

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 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014
Sales	1,966	1,961	1,996	1,865	1,934	1,823	1,762	1,830
Cost of sales	1,696	1,504	1,610	1,534	1,543	1,505	1,411	1,522
Gross profit	270	457	386	331	391	318	351	308
Selling and distribution expenses	142	162	155	147	153	169	163	179
General and administrative expenses	163	153	166	153	156	245	160	138
Operating (loss) profit	(35)	142	65	31	82	(96)	(28)	(9)
Other expenses (income)	57	66	(1)	16	89	56	311	1
(Loss) profit before tax	(92)	76	66	15	(7)	(152)	(283)	(10)
Income tax (recovery) expense	(21)	22	5	7	12	3	(34)	(2)
(Loss) profit	(71)	54	61	8	(19)	(155)	(249)	(8)
(Loss) earnings per share, basic and diluted - Cdn\$	(0.002)	0.002	0.002	0.000	(0.001)	(0.005)	(0.007)	(0.000)
<b>Sales - % change over previous quarter</b>	0.3	-1.8	7.0	-3.6	6.1	3.5	-3.7	12.3

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

Cost of sales	86.3	76.7	80.7	82.2	79.8	82.6	80.1	83.2
Selling and distribution expenses	7.3	8.2	7.8	7.9	7.9	9.3	9.3	9.8
General and administrative expenses	8.3	7.8	8.3	8.2	8.1	13.4	9.1	7.5
Other expenses (income)	2.7	3.4	-0.1	0.9	4.6	3.0	17.6	0.0
Income tax expense	-1.1	1.1	0.3	0.4	0.6	0.2	-1.9	-0.1
Profit (loss)	-3.5	2.8	3.0	0.4	-1.0	-8.5	-14.2	-0.4



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 33% of our sales are priced in US dollars. Sales were 0.3% higher in the quarter ended March 31, 2016 than in the previous quarter, ended December 31, 2015 and 1.7% higher than in the quarter ended March 31, 2015.

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, as a percentage of sales, during the quarter ended March 31, 2016 is due to the increase in fixed costs and depreciation related to the air laid paper machine. We expect that the direct margins from the sale of air laid paper produced from the excess capacity of the machine and an increase in the sale of our own air laid products will offset these increased fixed costs. Selling and distribution expenses are improved as the increase in sales was mainly to customers relatively close to British Columbia and to fewer commissions paid.

## 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>June 20, 2016</u>
Authorized common shares without par value	Unlimited
Issued common shares	33,665,800
Shares issuable on exercise of outstanding stock options	2,000,000
Shares available for future stock option grants	1,366,580

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

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).



June 20, 2016

## **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, 2016 and March 31, 2015, and the consolidated statements of comprehensive income (loss), 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.

#### **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, 2016 and March 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

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

	Notes	March 31 2016 \$	March 31 2015 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment	5, 18	9,210,007	8,022,167
Lease deposits		18,012	18,012
Deferred tax asset	8	8,518	12,688
		9,236,537	8,052,867
<b>Current Assets</b>			
Inventory	6	1,150,407	886,275
Trade and other receivables		864,993	982,370
Income tax recoverable		13,456	37,812
Prepaid expenses		38,354	28,163
Cash and cash equivalents		117,279	96,410
		2,184,489	2,031,030
<b>Total Assets</b>		11,421,026	10,083,897
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Common shares issued and outstanding	7	3,883,225	3,883,225
Stock options	7	96,200	96,200
Contributed surplus		286,874	286,874
Retained earnings		443,775	390,897
<b>Equity attributable to common shareholders</b>		4,710,074	4,657,196
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Term bank loans	10	4,583,332	290,653
Liabilities supported by term loan commitments	10	-	2,889,425
Deferred operating lease liability		100,608	52,505
Deferred tax liability	8	547,729	524,356
		5,231,669	3,756,939
<b>Current Liabilities</b>			
Revolving bank loans	9	101,095	358,118
Term bank loans	10	416,668	-
Unrealized loss on forward currency exchange contracts		-	190,256
Trade and other payables	11	961,520	1,121,388
		1,479,283	1,669,762
<b>Total Liabilities</b>		6,710,952	5,426,701
<b>Total Equity and Liabilities</b>		11,421,026	10,083,897
<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 (Loss)**  
(Canadian Dollars)

	Notes	<u>Years ended March 31</u>	
		<u>2016</u>	<u>2015</u>
		\$	\$
<b>Sales</b>		7,788,049	7,349,416
<b>Cost of sales</b>	12	<u>6,343,668</u>	<u>5,981,539</u>
<b>Gross Profit</b>		1,444,381	1,367,877
<b>Selling and distribution expenses</b>	13	607,098	664,592
<b>General and administrative expenses</b>	14	<u>635,894</u>	<u>699,283</u>
<b>Operating Profit</b>		201,389	4,002
<b>Foreign exchange loss (gain)</b>		21,170	(48)
<b>(Gain) loss on forward currency exchange contracts</b>		(24,485)	264,998
<b>Loss on disposal of equipment</b>		5,509	11,253
<b>Relocation expenses</b>		-	172,209
<b>Interest expense</b>		<u>133,141</u>	<u>7,690</u>
<b>Profit (Loss) Before Tax</b>		66,054	(452,100)
<b>Income tax expense (recovery)</b>	8	<u>13,176</u>	<u>(20,877)</u>
<b>Profit (Loss) and Comprehensive Income (Loss)</b>		<u><u>52,878</u></u>	<u><u>(431,223)</u></u>
<b>Weighted average shares outstanding</b>		<u>33,665,800</u>	<u>33,476,060</u>
<b>Earnings (Loss) per share, basic</b>		<u>0.002</u>	<u>(0.013)</u>
<b>Dilutive effect of warrants and options outstanding</b>	15	64,516	-
<b>Fully diluted weighted average shares outstanding</b>		<u>33,730,316</u>	<u>33,476,060</u>
<b>Earnings (Loss) per share, fully diluted</b>		<u><u>0.002</u></u>	<u><u>(0.013)</u></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, 2014</b>	3,839,080	11,745	-	286,874	822,120	4,959,819
<b>Shares issued for cash on the exercise of warrants</b>	44,145	(11,745)	-	-	-	32,400
<b>Stock options granted</b>	-	-	96,200	-	-	96,200
<b>Loss for the year</b>	-	-	-	-	(431,223)	( 431,223)
<b>Balance as at March 31, 2015</b>	3,883,225	-	96,200	286,874	390,897	4,657,196
<b>Profit for the year</b>	-	-	-	-	52,878	52,878
<b>Balance as at March 31, 2016</b>	3,883,225	-	96,200	286,874	443,775	4,710,074

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

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

	Notes	Years ended March 31	
		2016	2015
		\$	\$
<b>Operating Activities</b>			
Profit (Loss)		52,878	(431,223)
Adjustments to reconcile profit (loss) to cash flows from operating activities			
- depreciation		485,884	344,069
- loss on disposal of equipment		5,509	11,253
- stock option expense		-	96,200
- lease deposits applied		-	40,444
- deferred operating lease liability		48,103	52,505
- (gain) loss on forward currency exchange contracts		(24,485)	264,998
- interest expense		133,141	7,690
- income tax expense (recovery)		13,176	(20,877)
- income tax refunded (paid)		38,723	(38,871)
Cash flows from operating activities before changes in non-cash working capital		752,929	326,188
(Increase) decrease in			
- inventory		(264,132)	303,714
- trade and other receivables		117,377	(241,725)
- prepaid expenses		(10,191)	(930)
(Decrease) increase in			
- trade and other payables		(80,027)	416,761
<b>Net Cash Flows from Operating Activities</b>		<b>515,956</b>	<b>804,008</b>
<b>Investing Activities</b>			
Purchase of plant and equipment	16	(4,593,413)	(2,901,290)
Interest capitalized		(60,148)	-
Proceeds from disposal of equipment		-	1,464
Realized loss on forward currency exchange contracts		(165,771)	(75,982)
<b>Net Cash Flows from Investing Activities</b>		<b>(4,819,332)</b>	<b>(2,975,808)</b>
<b>Financing Activities</b>			
Cash received on issuance of common shares		-	32,400
Term loan proceeds		4,709,347	290,653
Repayment of term loans		-	(44,432)
(Decrease) increase in revolving bank loans		(257,023)	358,118
Interest paid		(128,079)	(6,936)
<b>Net Cash Flows from Financing Activities</b>		<b>4,324,245</b>	<b>629,803</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		<b>20,869</b>	<b>(1,541,997)</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		<b>96,410</b>	<b>1,638,407</b>
<b>Cash and Cash Equivalents at the End of the Year</b>		<b>117,279</b>	<b>96,410</b>

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



# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

### 1. GENERAL INFORMATION

WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc., (together, the company) are a paper manufacturer and 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, 2016 were authorized for issue by resolution of the directors on June 20, 2016.

### 2. BASIS OF PREPARATION

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 statements 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	- 1.5 to 25 years
Leasehold improvements	- 15 to 25 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, 2016 and 2015**

**(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. Overhead related to raw materials manufactured by the company is allocated to the cost of those raw materials based on the practical capacity of the manufacturing plant. The allocation of the remaining overhead 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 consolidated 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

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2016 and 2015**

**(Canadian Dollars)**

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

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.

(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's forward currency exchange contracts are 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. At the directors' discretion, stock options may vest in blocks over a designated period of time. 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 statements 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.

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2016 and 2015**

**(Canadian Dollars)**

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

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.

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 statements of financial position 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

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

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

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.

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 International Accounting Standards Board adopted *IAS 16 Leases* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Effective for its financial year ending March 31, 2020, the company will be required to reflect an asset and related liability for the lease of its premises. The company has not yet quantified the impact this will have on its financial position.

The International Accounting Standards Board adopted *IFRS 15, Revenue from Contracts with Customers*, in May 2014 effective for financial years beginning on or after January 1, 2018, which establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments. The adoption of this standard will not have any significant impact on the company's financial statements, other than the disclosure of additional information.

#### 4. FINANCIAL INSTRUMENTS

The company has various financial instruments including trade and other receivables, cash and cash equivalents, revolving bank loans, term bank loans, trade and other payables and foreign currency hedges. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Foreign currency hedges are carried at fair value. Trade and other receivables and all non-hedge 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. There are 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.

# WESTBOND ENTERPRISES CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

### 4. FINANCIAL INSTRUMENTS (continued)

Cash and cash equivalents and foreign currency hedges 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 customers that it considers creditworthy. At March 31, 2016, \$10,938 (2015 – \$7,339) of trade and other receivables were between 31 and 60 days past due and \$19,125 (2015 – \$11,444) 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, 2016, the company wrote off \$1,141 in trade and other receivables (2015 – \$2,566). At March 31, 2016 the amount of \$362,389 (2015 – \$330,723) was due from three customers (2015 – two customers), each of whom represented more than 10% and together represented an aggregate of 42% of trade and other receivables (2015 – 32%). One of the customers is part of a large multinational corporate group and is highly creditworthy. The other customers are long standing customers who consistently make regular payments.

The company's revolving bank loan and term bank loan are at interest rates that fluctuate with market interest rates. At the levels of indebtedness at March 31, 2016, 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 \$51,011 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\$9,180 net assets to US\$123,416 net liabilities and averaged US\$60,671 net liabilities (calculated on a monthly basis) and, at March 31, 2016, net liabilities were US\$122,817. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.26 to Cdn\$1.27) 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\$1,228 on an exposure of US\$122,800. During the year ended March 31, 2016, the company realized foreign exchange losses of \$21,170 (2015 – gains of \$48). 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.

The company had equipment purchase commitments outstanding and trade and other payables denominated in European euros aggregating €478,065 at March 31, 2015, accordingly the company was exposed to fluctuations in the Euro/Cdn dollar exchange rates. During the year ended March 31, 2016 the company entered into forward exchange contracts that effectively fixed the exchange rate on €417,324 of the commitments at a weighted average of €1.00 = Cdn\$1.4122. The company realized a gain of \$24,485 on these commitments during the year ended March 31, 2016.

The company had additional equipment purchase commitments outstanding during the year ended March 31, 2015 denominated in European euros aggregating €2,317,430 against which it had entered into forward currency exchange contracts that effectively fixed the exchange rate at an average of €1.00 = Cdn\$1.4804. During the year ended March 31, 2015, €196,440 of the equipment was purchased and the related forward currency exchange contract was settled and the remaining €2,120,990 of the equipment was purchased, however the related forward currency exchange contracts and letters of credit issued under the term loan facility were settled during the year ended

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2016 and 2015**  
**(Canadian Dollars)**

**4. FINANCIAL INSTRUMENTS (continued)**

March 31, 2016. Losses of \$264,998 on the forward exchange contracts were recognized during the year ended March 31, 2015.

**5. PLANT AND EQUIPMENT**

	Factory equipment \$	Leasehold improvements \$	Office equipment \$	Total \$
<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	2,463,216	2,248	29,680	2,495,144
Additions	5,777,062	54,110	52,637	5,883,809
Disposals – cost	(158,204)	(40,223)	(20,530)	(218,957)
Disposals – accumulated depreciation	145,487	40,223	20,530	206,240
Depreciation	(328,456)	(3,737)	(11,876)	(344,069)
<b>At March 31, 2015</b>				
Cost	10,873,060	59,185	129,044	11,061,289
Accumulated depreciation	(2,973,955)	(6,564)	(58,603)	(3,039,122)
Net book value	7,899,105	52,621	70,441	8,022,167
Additions	1,646,536	62,985	6,713	1,716,234
Disposals – cost	(105,749)	-	(1,640)	(107,389)
Disposals – accumulated depreciation	63,239	-	1,640	64,879
Depreciation	(468,738)	(4,046)	(13,100)	(485,884)
<b>At March 31, 2016</b>				
Cost	12,413,847	122,170	134,117	12,670,134
Accumulated depreciation	(3,379,454)	(10,610)	(70,063)	(3,460,127)
Net book value	9,034,393	111,560	64,054	9,210,007

Included in factory equipment at March 31, 2016 is equipment costing \$155,271 (2015– \$5,513,921) that was under construction or refurbishment or had not otherwise been made available for use.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

#### 6. INVENTORY

	2016	2015
	\$	\$
Raw materials	891,386	596,052
Finished goods	259,021	290,223
Total inventory	<u>1,150,407</u>	<u>886,275</u>

#### 7. SHARE CAPITAL

##### Authorized

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

##### Issued

	<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, 2014	405,000	11,745	33,260,800	3,839,080
Issued for cash on exercise of warrants at \$0.08 per share	<u>(405,000)</u>	<u>(11,745)</u>	<u>405,000</u>	<u>44,145</u>
Outstanding at March 31, 2015 and 2016	<u>-</u>	<u>-</u>	<u>33,665,800</u>	<u>3,883,225</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

During the year ended March 31, 2016 the company 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 10% of the outstanding common shares of the company at the time of the grant, less any stock options previously granted and still outstanding. Options granted under the plan expire after a maximum of ten 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 year ended March 31, 2014. During the year ended March 31, 2015 stock options were granted under the company's previous stock option plan to purchase a total of 2,000,000 common shares at \$0.09 per share until December 3, 2019. The options were fully vested on granting. The fair value of \$96,200 ascribed to the stock options was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.3%, a dividend yield of 0%, an expected option life of 5 years and expected volatility of 63%. The expected volatility was estimated using 5 years of historical data. \$7,215 of the fair value has been reflected in factory overhead labour and \$88,985 has been reflected in general and administrative salaries and other employee benefits. The options were outstanding and had a remaining life of 3.7 years at March 31, 2016. No stock options were granted, vested, exercised or forfeited during the year ended March 31, 2016.



## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

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(Canadian Dollars)

#### 7. SHARE CAPITAL (continued)

##### 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.

#### 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:

	2016	2015
	\$	\$
Share issue costs deductible in future periods	8,518	12,688
Allowable capital losses carried forward	29,887	34,450
	38,405	47,138
Valuation allowance	(29,887)	(34,450)
Net deferred tax asset	8,518	12,688
Depreciation of plant and equipment	947,041	528,454
Operating loss carried forward	(396,720)	-
Other tax deductions carried forward	(2,592)	(4,098)
Net deferred tax liability	547,729	524,356

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

	2016	2015
	26.00%	26.00%
	\$	\$
Income tax expense (recovery) based on the statutory rates	17,174	(117,546)
Tax effect of income and expenses that are not taxable or deductible for income tax purposes	(815)	62,219
(Decrease) increase in valuation allowance	(3,183)	34,450
Income tax expense (recovery) for the year	13,176	(20,877)
Current portion	(14,367)	(15,682)
Deferred portion	27,543	(5,195)

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

#### 9. REVOLVING BANK LOANS

The company has a \$1,500,000 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 \$1,500,000 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, its consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and 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 1.25:1 or higher.

#### 10. TERM BANK LOANS

The company has a \$5,000,000 term loan credit facility for the purchase of certain production equipment. Repayment of the loans is in 11 monthly instalments of \$59,524 commencing September 2016 with a final payment of the balance of principal in August 2017. Interest is payable monthly at bank prime rate 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 has been pledged as collateral. The company drew down \$290,653 of the loan facility during the year ended March 31, 2015 and the remaining \$4,709,347 during the year ended March 31, 2016. The covenants applicable to the revolving bank loans (note 9) also apply to the term loan facility.

During the year ended March 31, 2012, the company received a \$200,000 non-revolving term loan. The loan bore interest at bank prime rate plus 1%, payable monthly. The loan was re-payable in monthly principal instalments of \$5,556 and was fully re-paid during the year ended March 31, 2015. 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 was pledged as collateral.

#### 11. TRADE AND OTHER PAYABLES

	2016	2015
	\$	\$
Payable to suppliers for trade purchases	763,653	884,840
Payable to employees for wages and expenses	106,820	140,735
Payable to governments for withholding and sales taxes	44,751	50,854
Accrued liabilities	46,296	44,959
	<u>961,520</u>	<u>1,121,388</u>

**WESTBOND ENTERPRISES CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2016 and 2015**  
**(Canadian Dollars)**

**12. COST OF SALES**

	2016	2015
	\$	\$
Materials	3,988,802	4,182,552
Production labour	769,251	588,880
Factory overhead labour	351,201	281,780
Variable overhead	267,470	210,670
Fixed overhead	494,160	385,463
Depreciation	472,784	332,194
	<u>6,343,668</u>	<u>5,981,539</u>

**13. SELLING AND DISTRIBUTION EXPENSES**

	2016	2015
	\$	\$
Shipping	513,727	552,204
Wages, commissions and other employee benefits	78,697	100,446
Other	14,674	11,942
	<u>607,098</u>	<u>664,592</u>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	2016	2015
	\$	\$
Administration and office	166,662	158,149
Corporate promotion	8,429	9,191
Professional fees	57,400	46,550
Salaries and other employee benefits	403,403	485,393
	<u>635,894</u>	<u>699,283</u>

**15. EARNINGS PER SHARE**

The potential effect on loss per share of the stock options outstanding during the year ended March 31, 2015 was anti-dilutive; accordingly, they were excluded from the calculation of diluted earnings per share. During periods of loss stock options have an anti-dilutive effect on loss per share.

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

During the year ended March 31, 2016, trade and other payables related to the purchase of plant and equipment decreased by \$84,903 (2015 – increased by \$91,854). Liabilities supported by term loan commitments of \$2,889,425 were incurred for the purchase of equipment and during the year ended March 31, 2015 and settled during the year ended March 31, 2016.

## WESTBOND ENTERPRISES CORPORATION

### Notes to the Consolidated Financial Statements

March 31, 2016 and 2015

(Canadian Dollars)

#### 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, 2016, the company had domestic sales in Canada of \$5,181,886 (2015 – \$4,824,411) and export sales to the United States of \$2,606,163 (2015 – \$2,525,005). During the year ended March 31, 2016, the company had sales to three customers of \$3,396,954 (2015 – \$3,140,853) 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 October 1, 2014 and ending October 31, 2029. Future minimum lease payments are as follows:

Years ending March 31	\$
2017 – 2019	299,057
2020	309,810
2021 – 2022	324,865
2023	335,619
2024	350,674
2025	356,050
2026 – 2027	363,578
2028	368,955
2029	376,482
2030	219,615

Operating costs and property taxes for the premises, currently estimated at \$148,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2016 the company expensed \$330,599 (2015 – \$280,063) in minimum lease payments, and \$148,628 (2015 – \$91,818) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

The company has made and settled equipment purchase commitments denominated in European euros as follows:

	€
Outstanding at March 31, 2014	2,749,163
Made during the year	1,146,216
Payments made during the year	(1,326,324)
Equipment purchased during the year against letters of credit settled after March 31, 2015	<u>(2,120,990)</u>
Outstanding at March 31, 2015	448,065
Payments made during the year	<u>(448,065)</u>
Outstanding at March 31, 2016	<u><u>-</u></u>

## **WESTBOND ENTERPRISES CORPORATION**

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

**March 31, 2016 and 2015**

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

During the year ended March 31, 2016:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$355,512 (2015 – \$429,787) to directors and officers of the company; and
- The company incurred \$12,673 (2015 – \$9,949) 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, 2016, trade and other payables include \$1,776 (2015 – \$1,736) 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 revolving bank loans and term bank 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. The company was in compliance with the covenants and terms under its revolving bank loans and term bank loans during the years ended March 31, 2016 and 2015.