



# ***WESTBOND ENTERPRISES CORPORATION***

## ***2017 Annual Report***

**WestBond Enterprises Corporation  
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# **WestBond Enterprises Corporation**

## **Management Discussion and Analysis**

**dated June 30, 2017, to accompany the consolidated financial statements for the year ended March 31, 2017**

***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 manufacturer and 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 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 2018 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. Recently, we introduced a premium line of air laid roll towels to the market. 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.

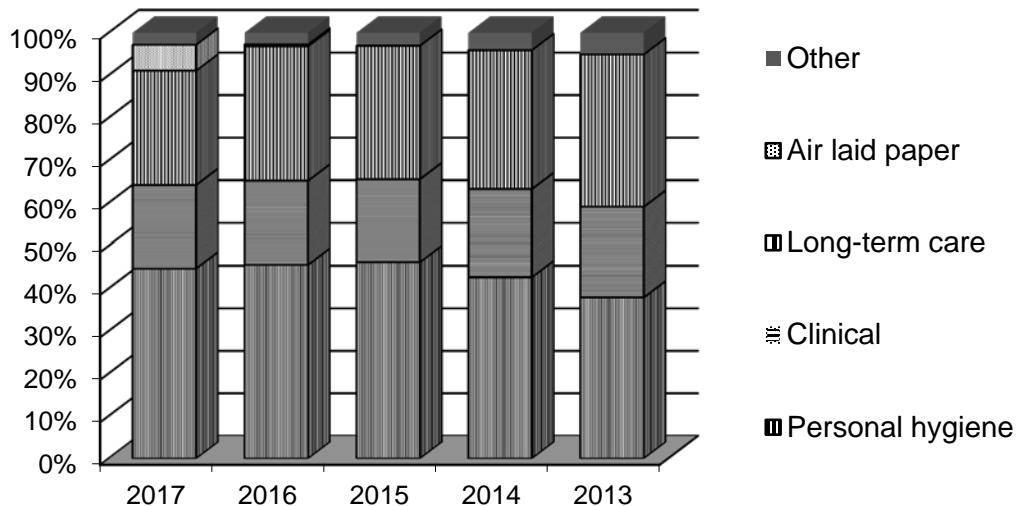
**Long-Term Care Products** – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes, mitts and underlays. All products 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, 2013 through 2017. Table top products are included with “Other” sales in the chart.

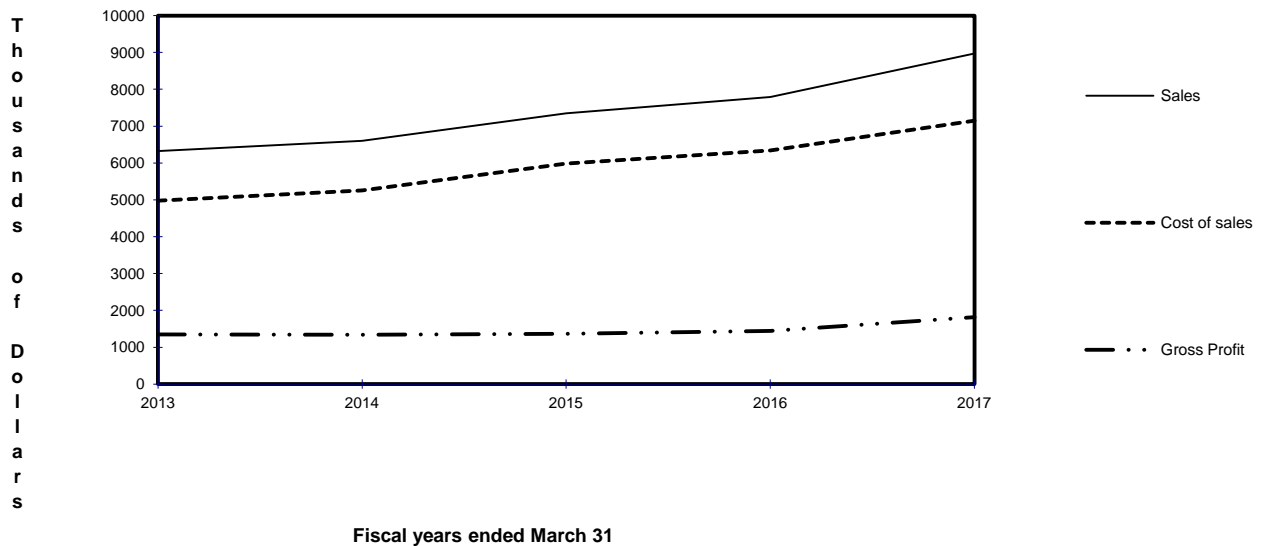


## Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2017 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 \$161,080 for the year ended March 31, 2017 compared to \$52,878 for the year ended March 31, 2016 and a loss of \$431,223 for the year ended March 31, 2015. Our gross profit margin realized during 2017 was 20.3%, compared to 18.6% for 2016 and 2015. Our gross profit margins improved due to the air laid paper machine going into production, which reduced raw materials costs by more than the added overhead and depreciation attributable to the machine. 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,					
	2017		2016		2015	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	8,969,371	100.0	7,788,049	100.0	7,349,416	100.0
Cost of sales	7,148,766	79.7	6,343,668	81.5	5,981,539	81.4
Gross profit	1,820,605	20.3	1,444,381	18.5	1,367,877	18.6
Selling and distribution expenses	733,538	8.2	607,098	7.8	664,592	9.0
General and administrative expenses	652,908	7.3	635,894	8.2	699,283	9.5
Other expenses	212,926	2.3	135,335	1.7	456,102	2.6
Profit (loss) before tax	221,233	2.5	66,054	0.8	(452,100)	-2.5
Income tax expense (recovery)	60,153	0.7	13,176	0.1	(20,877)	-0.3
Profit (loss) and comprehensive income (loss)	161,080	1.8	52,878	0.7	(431,223)	-2.2
(Loss) earnings per share, basic and diluted	0.005		0.002		(0.013)	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2017	2016	2015
	\$	\$	\$
Non-Current Assets	8,758,310	9,236,537	8,052,867
Current Assets	2,242,687	2,184,489	2,031,030
Total assets	11,000,997	11,421,026	10,083,897
Non-Current Liabilities	4,609,569	5,231,669	3,756,939
Current liabilities	1,520,274	1,479,283	1,669,762
Shareholders' equity	4,871,154	4,710,074	4,657,196

### Sales

Sales were \$8,969,371 for the year ended March 31, 2017, a 15.2% increase over the year ended March 31, 2016. The table below summarizes the sales of the Company for the last five fiscal years.

	2017	2016	2015	2014	2013
	\$	\$	\$	\$	\$
Personal hygiene products	4,010,549	3,550,791	3,396,874	2,815,772	2,396,857
Clinical products	1,752,542	1,531,332	1,425,965	1,361,185	1,342,068
Long-term care products	2,408,946	2,458,934	2,303,404	2,152,750	2,264,003
Air laid paper	546,253	32,441	-	-	-
Other products	251,081	214,551	223,173	269,733	321,551
Total sales	8,969,371	7,788,049	7,349,416	6,599,440	6,324,479
Change over previous year	15.2%	6.0%	11.4%	4.3%	4.0%

Sales increased in all product categories other than long-term care products, which remained relatively flat. 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 35% of our sales in 2017 were priced in US dollars, compared with 33% for 2016 and 34% for 2015, 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.

	2017		2016		2015		2014		2013	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	4,320,428	48.2	3,988,802	51.2	4,182,552	56.9	3,592,517	54.4	3,326,153	52.6
Production labour	832,463	9.3	769,251	9.9	588,880	8.0	493,246	7.5	458,586	7.3
Factory overhead										
labour	445,605	5.0	351,201	4.5	281,780	3.8	252,405	3.8	262,869	4.2
Variable overhead	332,179	3.7	267,470	3.4	210,670	2.8	142,759	2.2	160,293	2.5
Fixed overhead	503,010	5.6	494,160	6.3	385,463	5.2	452,187	6.9	451,536	7.1
Depreciation	715,081	7.9	472,784	6.1	332,194	4.5	323,694	4.9	313,440	4.9
Total cost of sales	7,148,766	79.7	6,343,668	81.4	5,981,539	81.4	5,256,808	79.7	4,972,877	78.6

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.

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

Unfavourable paper yields, the amount of product that a certain weight of paper produces, increased materials costs by a factor of 2.5% of sales in 2017 and 1.6% in 2016 and 2015. Most of our paper is purchased in US dollars, however favourable US dollar prices offset the adverse effect of the increased US dollar exchange rate. 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 were relatively stable in our 2017 and 2013 fiscal years and increased during the 2016, 2015 and 2014 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 9.3% of sales during 2017, compared to 9.9% during 2016 and 8.0% in 2015. The decrease in 2017 is from improved operating efficiencies. The increase in 2016 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 2017 and 2016 to support the new air laid paper machine. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2017 and 2016 is higher than previous years due to increased electricity and gas to operate the air laid paper machine.

Fixed overhead in 2017 includes \$12,456 in higher insurance premiums to cover the air laid paper machine, over the expense in 2016 and a \$3,607 refund of overbilled lease operating expenses. 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.

## Selling Expenses

Selling expenses, as a percentage of sales, are higher in 2017 than in 2016 due to increased shipping costs and are lower in 2016 than in 2015 because of lower sales commissions and shipping rates.

### **General and Administrative Expenses**

General and administrative costs were higher in 2017 than in 2016 due to \$10,470 in higher bank and credit card processing fees and \$18,399 in higher salaries, offset slightly by reductions in other categories. 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, 2017, trade and other receivables include \$25,309 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 2017 we had no bad debt losses compared to \$1,141 for 2016.

During the year ended March 31, 2017, professional fees include \$11,714 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, 2017, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$369,129 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. \$341,351 of the compensation is included in general and administrative salaries and employee benefits, \$23,280 is included in administration and office and \$4,498 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\$146,300 net assets to US\$182,071 net liabilities and averaged US\$17,122 net liabilities (calculated on a monthly basis) and at March 31, 2017 net liabilities were US\$35,086. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.33 to Cdn\$1.34) 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\$351 on an exposure of US\$35,086. During the year ended March 31, 2017 we realized foreign exchange losses of \$5,674 compared to \$21,170 in 2016. 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 had equipment purchase commitments outstanding and trade and other payables denominated in European euros aggregating €478,065 at March 31, 2015, accordingly we were exposed to fluctuations in the Euro/Cdn dollar exchange rates. During the year ended March 31, 2016 we 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. We realized a gain of \$24,485 on these commitments during the year ended March 31, 2016.

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, 2017, a 1% increase in the prime rate of interest would increase total interest expense by \$45,833 per year. Interest expense was higher during the year ended March 31, 2017 than in 2016 because the interest on the term bank loan was capitalized until August 2015.

### **Liquidity and Capital Resources**

Our operating cash flows were \$1,200,705 during the year ended March 31, 2017, an average of \$100,059 per month, compared to \$62,744 per month during 2016, before accounting for fluctuations in non-cash working capital. At March 31, 2017, we had cash of \$124,677 and working capital of \$722,413 compared to cash of \$117,279 and working capital of \$705,206 at March 31, 2016. The increase is due to improved operating cash flows.

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, 2017. 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 our 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 term loan which was used for the purchase of our binder bonded air laid paper making machine. Repayment of the loan is in monthly instalments of \$59,524 commencing September 22, 2016 with a final payment of the \$4,345,236 balance of principal on August 22, 2018. 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 our 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, 2017 and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with these covenants, and are unable to obtain a waiver from the bank, the loan will become payable on demand.

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 our 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.



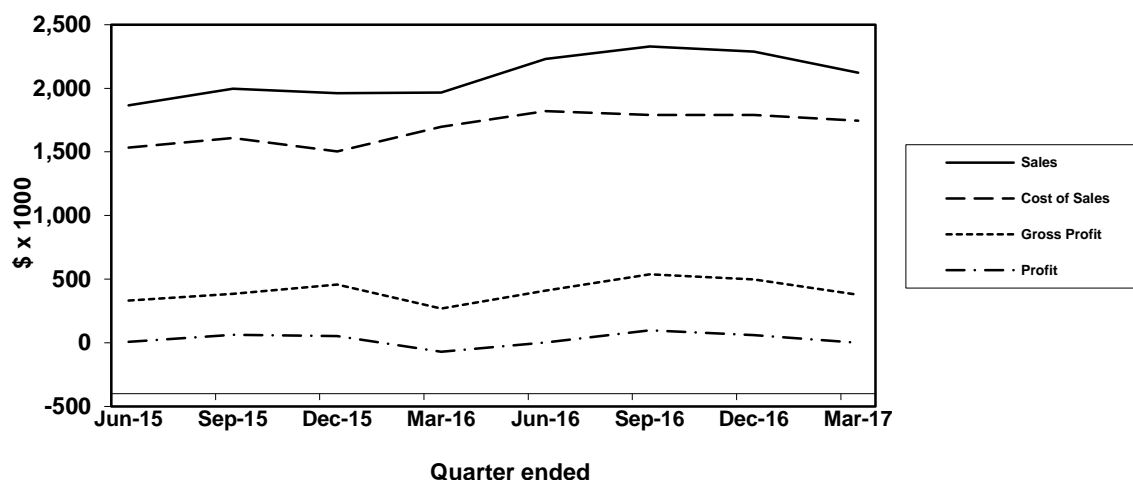
## Summary of Quarterly Results (Unaudited)

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 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015
Sales	2,122	2,288	2,329	2,230	1,966	1,961	1,996	1,865
Cost of sales	1,746	1,791	1,791	1,821	1,696	1,504	1,610	1,534
Gross profit	376	497	538	409	270	457	386	331
Selling and distribution expenses	171	185	185	193	142	162	155	147
General and administrative expenses	155	170	162	166	163	153	166	153
Operating profit (loss)	50	142	191	50	(35)	142	65	31
Other expenses (income)	47	60	59	47	57	66	(1)	16
Profit (loss) before tax	3	82	132	3	(92)	76	66	15
Income tax expense (recovery)	2	22	35	-	(21)	22	5	7
Profit (loss)	1	60	97	3	(71)	54	61	8
Earnings (loss) per share, basic and diluted - Cdn\$	0.000	0.002	0.003	0.000	(0.002)	0.002	0.002	0.000
<b>Sales - % change over previous quarter</b>	<b>-7.2</b>	<b>-1.8</b>	<b>4.4</b>	<b>13.4</b>	<b>0.3</b>	<b>-1.8</b>	<b>7.0</b>	<b>-3.6</b>

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

Cost of sales	82.3	78.3	76.9	81.7	86.3	76.7	80.7	82.2
Selling and distribution expenses	8.1	8.1	7.9	8.7	7.3	8.2	7.8	7.9
General and administrative expenses	7.3	7.4	7.0	7.4	8.3	7.8	8.3	8.2
Other expenses (income)	2.2	2.6	2.5	2.1	2.7	3.4	-0.1	0.9
Income tax expense (recovery)	0.1	1.0	1.5	0.0	-1.1	1.1	0.3	0.4
Profit (loss)	0.0	2.6	4.2	0.1	-3.5	2.8	3.0	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 35% of our sales are priced in US dollars. Sales were 7.2% lower in the quarter ended March 31, 2017 than in the previous quarter, ended December 31, 2016, and 7.9% higher than in the quarter ended March 31, 2016.

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. 1.7% of the increase in cost of sales, as a percentage of sales, during the quarter ended March 31, 2017 is due to unfavourable paper yields, 1.4% by higher variable overhead and the remainder to increased depreciation.

## Share Capital

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

	<u>June 30, 2017</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 Company had a shareholder rights plan (the "Plan") that was meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan remained in effect until the Company's annual general meeting on August, 15 2016. We did not seek renewal of the Plan because recent changes to securities regulation have improved protection from unfair, abusive or coercive takeover strategies..

## 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 30, 2017

## **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, 2017 and March 31, 2016 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.

#### **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, 2017 and March 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

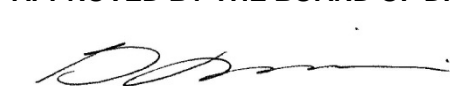
#### **Chartered Professional Accountants**

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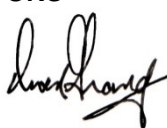
**WestBond Enterprises Corporation**  
**Consolidated Statements of Financial Position**  
(Canadian Dollars)

	Notes	March 31 2017 \$	March 31 2016 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment	5	8,735,948	9,210,007
Lease deposits		18,012	18,012
Deferred tax asset	8	4,350	8,518
		8,758,310	9,236,537
<b>Current Assets</b>			
Inventory	6	1,180,152	1,150,407
Trade and other receivables		891,105	864,993
Income tax recoverable		5,055	13,456
Prepaid expenses		41,698	38,354
Cash and cash equivalents		124,677	117,279
		2,242,687	2,184,489
<b>Total Assets</b>		11,000,997	11,421,026
<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		604,855	443,775
		4,871,154	4,710,074
<b>Equity attributable to common shareholders</b>			
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Term bank loans	10	3,869,044	4,583,332
Deferred operating lease liability		132,151	100,608
Deferred tax liability	8	608,374	547,729
		4,609,569	5,231,669
<b>Current Liabilities</b>			
Revolving bank loans	9	-	101,095
Term bank loans	10	714,288	416,668
Trade and other payables	11	805,986	961,520
		1,520,274	1,479,283
<b>Total Liabilities</b>		6,129,843	6,710,952
<b>Total Equity and Liabilities</b>		11,000,997	11,421,026
<b>Commitments</b>	17		

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>Years ended March 31</u>	
		<u>2017</u>	<u>2016</u>
		\$	\$
<b>Sales</b>		8,969,371	7,788,049
<b>Cost of sales</b>	12	<u>7,148,766</u>	<u>6,343,668</u>
<b>Gross Profit</b>		1,820,605	1,444,381
<b>Selling and distribution expenses</b>	13	733,538	607,098
<b>General and administrative expenses</b>	14	<u>652,908</u>	<u>635,894</u>
<b>Operating Profit</b>		434,159	201,389
<b>Foreign exchange loss</b>		5,674	21,170
<b>Gain on forward currency exchange contracts</b>		-	(24,485)
<b>Loss on disposal of equipment</b>		-	5,509
<b>Interest expense</b>		<u>207,252</u>	<u>133,141</u>
<b>Profit Before Tax</b>		221,233	66,054
<b>Income tax expense</b>	8	<u>60,153</u>	<u>13,176</u>
<b>Profit and Comprehensive Income</b>		<u>161,080</u>	<u>52,878</u>
<b>Weighted average shares outstanding</b>		<u>33,665,800</u>	<u>33,665,800</u>
<b>Earnings per share, basic</b>		<u>0.005</u>	<u>0.002</u>
<b>Dilutive effect of stock options outstanding</b>		200,000	64,516
<b>Fully diluted weighted average shares outstanding</b>		<u>33,865,800</u>	<u>33,730,316</u>
<b>Earnings per share, fully diluted</b>		<u>0.005</u>	<u>0.002</u>

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

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

	<b>Common Shares</b>	<b>Stock Options</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<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
<b>Profit for the year</b>	-	-	-	161,080	161,080
<b>Balance as at March 31, 2017</b>	3,883,225	96,200	286,874	604,855	4,871,154

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	
		2017	2016
		\$	\$
<b>Operating Activities</b>			
Profit		161,080	52,878
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation		727,616	485,884
- loss on disposal of equipment		-	5,509
- deferred operating lease liability		31,543	48,103
- gain on forward currency exchange contracts		-	(24,485)
- interest expense		207,252	133,141
- income tax expense		60,153	13,176
- income tax refunded		13,061	38,723
Cash flows from operating activities before changes in non-cash working capital		1,200,705	752,929
Increase in			
- inventory		(29,745)	(264,132)
- trade and other receivables		(26,112)	117,377
- prepaid expenses		(3,344)	(10,191)
Decrease in			
- trade and other payables		(154,040)	(80,027)
Net Cash Flows from Operating Activities		987,464	515,956
<b>Investing Activities</b>			
Purchase of plant and equipment	15	(254,454)	(4,593,413)
Interest capitalized		-	(60,148)
Realized loss on forward currency exchange contracts		-	(165,771)
Net Cash Flows from Investing Activities		(254,454)	(4,819,332)
<b>Financing Activities</b>			
Term loan proceeds		-	4,709,347
Repayment of term loans		(416,668)	-
Decrease in revolving bank loans		(101,095)	(257,023)
Interest paid		(207,849)	(128,079)
Net Cash Flows from Financing Activities		(725,612)	4,324,245
<b>Net Increase in Cash and Cash Equivalents</b>		7,398	20,869
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		117,279	96,410
<b>Cash and Cash Equivalents at the End of the Year</b>		124,677	117,279

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

# WestBond Enterprises Corporation

## Notes to the Consolidated Financial Statements

March 31, 2017 and 2016

(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, 2017 were authorized for issue by resolution of the directors on June 30, 2017.

### 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	- 1.2 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, 2017 and 2016

(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, 2017 and 2016**  
**(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, 2017 and 2016

(Canadian Dollars)

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

Current tax is the expected tax payable or refundable on the taxable profit or loss 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 or refundable 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 or warrants, 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 operating 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.

**WestBond Enterprises Corporation**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2017 and 2016**  
**(Canadian Dollars)**

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

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.

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.

**WestBond Enterprises Corporation**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2017 and 2016**  
**(Canadian Dollars)**

**4. FINANCIAL INSTRUMENTS (continued)**

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 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, 2017 \$5,776 (2016 – \$10,938) of trade and other receivables were between 31 and 60 days past due and \$19,533 (2016 – \$19,125) 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, 2017 the company wrote off \$nil in trade and other receivables (2016 – \$1,141). At March 31, 2017 the amount of \$248,813 (2016 – \$362,389) was due from two customers (2016 – three customers), each of whom represented more than 10% and together represented an aggregate of 28% of trade and other receivables (2016 – 42%). One of the customers is part of a large multinational corporate group and is highly creditworthy. The other customer is a long standing customer who consistently makes 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, 2017 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 \$45,833 per year.

Portions of the company's cash and cash equivalents, 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\$146,300 net assets to US\$182,071 net liabilities and averaged US\$17,122 net liabilities (calculated on a monthly basis) and, at March 31, 2017, net liabilities were US\$35,086. Each change of 1% (e.g., a change from US\$1.00 = Cdn\$1.33 to Cdn\$1.34) 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\$351 on an exposure of US\$35,086. During the year ended March 31, 2017 the company realized foreign exchange losses of \$5,674 (2016 – \$21,170). 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.

**WestBond Enterprises Corporation**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2017 and 2016**  
**(Canadian Dollars)**

**5. PLANT AND EQUIPMENT**

	Factory equipment \$	Leasehold improvements \$	Office equipment \$	Total \$
<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
<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
Additions	226,790	19,495	7,272	253,557
Disposals – cost	(40,823)	-	(2,419)	(43,242)
Disposals – accumulated depreciation	40,823	-	2,419	43,242
Depreciation	(708,430)	(6,651)	(12,535)	(727,616)
<b>At March 31, 2017</b>				
Cost	12,599,814	141,665	138,970	12,880,449
Accumulated depreciation	(4,047,061)	(17,261)	(80,179)	(4,144,501)
Net book value	8,552,753	124,404	58,791	8,735,948

Included in factory equipment at March 31, 2017 is equipment costing \$156,615 (2016 \$155,271) that was under construction or refurbishment or had not otherwise been made available for use.

**6. INVENTORY**

	2017 \$	2016 \$
Raw materials	673,056	891,386
Finished goods	507,096	259,021
Total inventory	1,180,152	1,150,407

**WestBond Enterprises Corporation**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2017 and 2016**  
**(Canadian Dollars)**

**7. SHARE CAPITAL**

**Authorized**

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

**Issued**

	<u>Common Shares Issued</u>	
	<u>Number</u>	<u>Ascribed Value</u>
		\$
Outstanding at March 31, 2015, 2016 and 2017	<u>33,665,800</u>	<u>3,883,225</u>

**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 10 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.

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. The options were outstanding and had a remaining life of 2.7 years at March 31, 2017. No stock options were granted, vested, exercised or forfeited during the years ended March 31, 2016 and 2017.

**Shareholder Rights Plan**

The company's shareholder rights plan (the "Plan") was not renewed at its annual general meeting on August 15, 2016 and consequently ceased to be effective. The company had adopted the Plan to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan, in effect, allowed 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 was not a Permitted Bid under the Plan. The rights under the Plan were not exercisable by the acquiring person or group of persons. The rights under the Plan were not triggered by purchases of shares made pursuant to a take-over bid that was 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, 2017 and 2016**  
**(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:

	2017	2016
	\$	\$
Share issue costs deductible in future periods	4,350	8,518
Allowable capital losses carried forward	29,887	29,887
	34,237	38,405
Valuation allowance	(29,887)	(29,887)
Net deferred tax asset	4,350	8,518
Depreciation of plant and equipment	1,718,589	947,041
Operating losses carried forward	(1,110,215)	(396,720)
Other tax deductions carried forward	-	(2,592)
Net deferred tax liability	608,374	547,729

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:

	2017	2016
Combined statutory rate	26.00%	26.00%
	\$	\$
Income tax expense based on the statutory rates	57,521	17,174
Tax effect of income and expenses that are not taxable or deductible for income tax purposes	2,632	(815)
Decrease in valuation allowance	-	(3,183)
Income tax expense (recovery) for the year	60,153	13,176
Current portion	(4,660)	(14,367)
Deferred portion	64,813	27,543



# WestBond Enterprises Corporation

## Notes to the Consolidated Financial Statements

March 31, 2017 and 2016

(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 various financial ratios and was in compliance with these covenants at March 31, 2017.

### 10. TERM BANK LOANS

The company has a term bank loan facility used for the purchase of certain production equipment. Repayment of the loans is in monthly instalments of \$59,524 commencing September 2016 with a final payment of the balance of principal in August 2018. 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 covenants applicable to the revolving bank loans (note 9) also apply to the term loan facility.

### 11. TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Payable to suppliers for trade purchases	598,695	763,653
Payable to employees for wages and expenses	114,785	106,820
Payable to governments for withholding and sales taxes	49,198	44,751
Accrued liabilities	43,308	46,296
	<u>805,986</u>	<u>961,520</u>

### 12. COST OF SALES

	2017	2016
	\$	\$
Materials	4,320,428	3,988,802
Production labour	832,463	769,251
Factory overhead labour	445,605	351,201
Variable overhead	332,179	267,470
Fixed overhead	503,010	494,160
Depreciation	715,081	472,784
	<u>7,148,766</u>	<u>6,343,668</u>

**WestBond Enterprises Corporation**  
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**13. SELLING AND DISTRIBUTION EXPENSES**

	2017	2016
	\$	\$
Shipping	624,764	513,727
Wages, commissions and other employee benefits	95,186	78,697
Other	13,588	14,674
	<u>733,538</u>	<u>607,098</u>

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	2017	2016
	\$	\$
Administration and office	171,433	166,662
Corporate promotion	6,274	8,429
Professional fees	53,399	57,400
Salaries and other employee benefits	421,802	403,403
	<u>652,908</u>	<u>635,894</u>

**15. SUPPLEMENTARY CASH FLOW INFORMATION**

During the year ended March 31, 2017 trade and other payables related to the purchase of plant and equipment decreased by \$897 (2016 – \$84,903). Liabilities supported by term loan commitments of \$2,889,425 were incurred for the purchase of equipment during the year ended March 31, 2015 and settled during the year ended March 31, 2016.

**16. 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, 2017 the company had domestic sales in Canada of \$5,818,244 (2016 – \$5,181,886) and export sales to the United States of \$3,151,127 (2016 – \$2,606,163). During the year ended March 31, 2017 the company had sales to three customers of \$3,362,974 (2016 – \$3,396,954), each of whom represented more than 10% of sales.

**WestBond Enterprises Corporation**  
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**17. COMMITMENTS**

The company has an operating lease for premises ending October 31, 2029. Future minimum lease payments are as follows:

Years ending March 31	\$
2018 – 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 \$151,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2017 the company expensed \$330,599 (2016 – \$330,599) in minimum lease payments, and \$144,758 (2016 – \$148,628) in additional lease payments for operating costs and property taxes, on its operating leases for premises.

**18. RELATED PARTY TRANSACTIONS**

During the year ended March 31, 2017:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of \$369,129 (2016 – \$355,512) to directors and officers of the company; and
- The company incurred \$11,714 (2016 – \$12,673) 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, 2017 trade and other payables include \$nil (2016 – \$1,776) due to the firm.

**19. 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, 2017 and 2016.