WESTBOND ENTERPRISES CORPORATION

2020 Annual Report

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WestBond Enterprises Corporation

Management Discussion and Analysis

dated June 18, 2020, to accompany the consolidated financial statements for the year ended March 31, 2020

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 paper 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 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 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 and its territories.

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, though temporarily interrupted by the covid-19 pandemic shut-downs.

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.

We started production on our binder bonded air laid paper making machine in August 2015. The machine can produce air laid paper at a significantly lower cost than current purchase prices. We use 25% - 30% of the production capacity of the machine for our own finished products and are selling production from surplus capacity to other paper converters.

We have purchased a wet-wipe production line and are in the process of installing it and developing a disinfectant wipe which uses our air laid paper in a small flip-top tub dispenser. We expect sales of this product to commence this summer.

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 distributors who wanted to increase their purchasing ability with us. We evaluated this potential and determined that there was 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, 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.

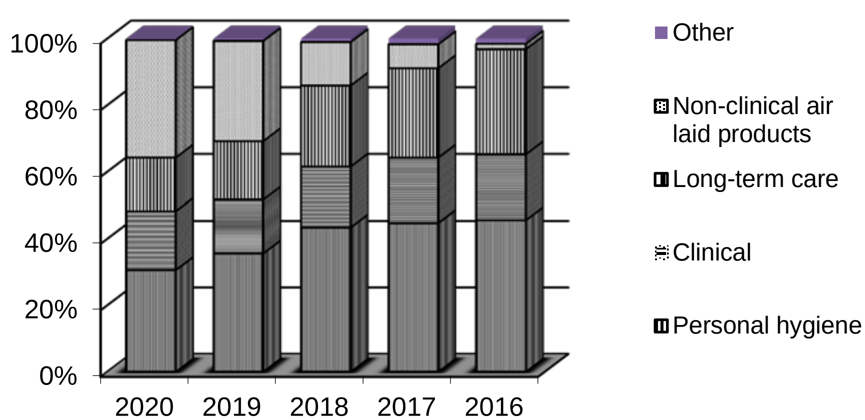
Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate four entire production lines to these items. The products include patient wipes and underlays. All products are made 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 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 is allowing 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, 2016 through 2020. Table top product sales are included with "Non-clinical air laid products" in the chart.

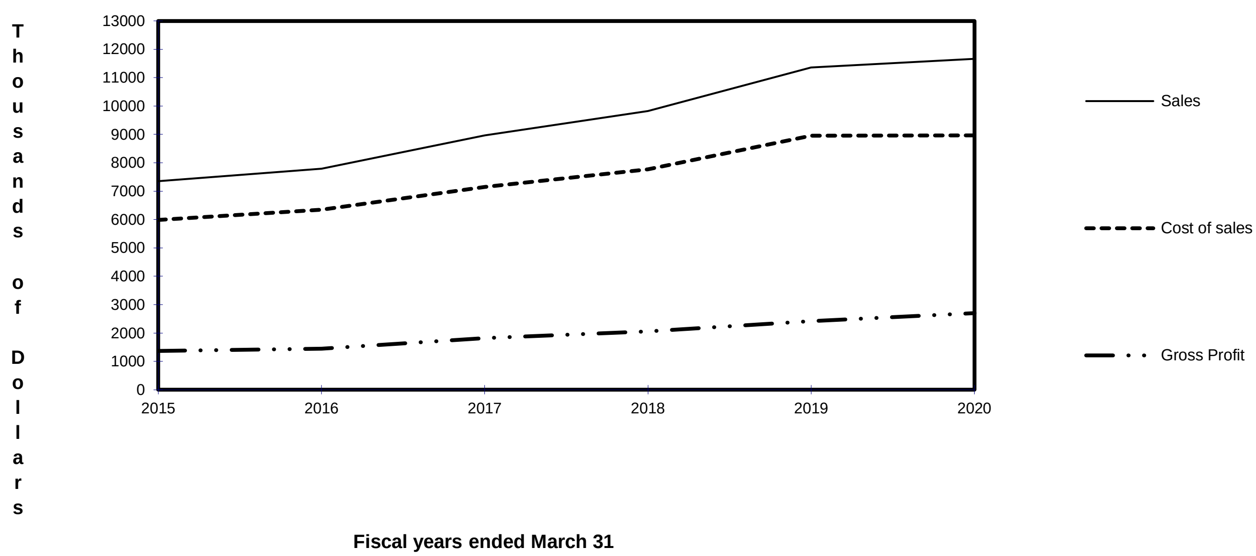


Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2020 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 $591,016 during the year ended March 31, 2020, compared to $421,264 for the year ended March 31, 2019, an increase of 40%, and $298,088 for the year ended March 31, 2018. Our gross profit margin realized during 2020 was 23.2% compared to 21.2% for 2019 and 20.9% for 2018. 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 the introduction of table top and other non-clinical air laid products, and 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. The gross profit margin for 2020 increased by approximately 1.1% as a result of adopting the new accounting policy for leases, which shows the interest portion of lease payments as a financing expense.

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).

	Years ended March 31					
Operating Results	**2020**		**2019**		**2018**	
	$	**% of sales**	**$**	**% of sales**	**$**	**% of sales**
Sales	11,667,892	100.0	11,363,162	100.0	9,829,025	100.0
Cost of sales	8,965,574	76.8	8,949,336	78.8	7,772,815	79.1
Gross profit	2,702,318	23.2	2,413,826	21.2	2,056,210	20.9
Selling and distribution expenses	922,061	7.9	896,493	7.9	827,880	8.4
General and administrative expenses	710,094	6.1	763,499	6.7	657,658	6.7
Other expenses	245,533	2.1	165,566	1.4	120,968	1.3
Profit before tax	824,630	7.1	588,268	5.2	449,704	4.5
Income tax expense	233,614	2.0	167,004	1.5	151,616	1.5
Profit and comprehensive income	591,016	5.1	421,264	3.7	298,088	3.0
Earnings per share, basic	0.017		0.013		0.009	
Earnings per share, fully diluted	0.017		0.012		0.009	
Cash dividends paid per common share	0.01		0.0075		nil	

	March 31	April 1	March 31	
Financial Position	**2020**	**2019**	**2019**	**2018**
	$	**$**	**$**	**$**
Non-Current Assets	10,239,977	10,762,671	7,845,894	8,191,705
Current Assets	3,380,412	3,089,489	3,089,489	2,568,204
Total assets	13,620,389	13,852,160	10,935,383	10,759,909
Non-Current Liabilities	5,532,705	6,182,373	3,602,145	4,093,930
Current liabilities	2,196,667	2,176,128	1,982,101	1,496,737
Shareholders' equity	5,891,017	5,493,659	5,351,137	5,169,242

The opening financial position at April 1, 2019 reflects the March 31, 2019 financial position adjusted for the adoption of *IFRS-16, Leases.*

Sales

Sales were $11,667,892 for the year ended March 31, 2020, a 2.7% increase over the year ended March 31, 2019. The table below summarizes the sales of the Company for the last five fiscal years.

	2020	2019	2018	2017	2016
	$	$	$	$	$
Personal hygiene products	3,570,404	4,046,919	4,266,950	4,010,549	3,550,791
Clinical products	2,061,075	1,823,461	1,784,060	1,752,542	1,531,332
Long-term care products	1,868,135	1,992,870	2,392,582	2,408,946	2,458,934
Non-clinical air laid products	4,118,076	3,419,296	1,283,943	644,409	125,460
Other products	50,202	80,616	101,490	152,925	121,532
Total sales	11,667,892	11,363,162	9,829,025	8,969,371	7,788,049
Change over previous year	2.7%	15.6%	9.6%	15.2%	6.0%

The decrease in personal hygiene product sales is due to a shortage of paper supply in the North American market and machine maintenance. We have sourced more reliable paper suppliers overseas and we are now no longer experiencing this problem. Clinical products increased as one of our customers increased its volume. Long-term care products decreased due to the loss of a significant customer, but are otherwise improving. Sales increased in the non-clinical air laid products.

The overall clinical and long-term care markets continue to be strong due to the aging population. Approximately 44% of our sales in 2020 and 2019 were priced in US dollars, compared with 35% in 2018 and 2017 and 33% in 2016, mainly in the personal hygiene, long-term care and non-clinical air laid products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar. The increase in in the percentage of US dollar sales in 2019 is because the majority of our non-clinical air laid sales are to US customers.

As a supplier of clinical and personal hygiene products, essential services, we have remained in operation during the covid-19 pandemic shut-downs, which started in March 2020. Toilet paper and long-term care products were in high demand during March and April 2020. Clinical products demand has fallen as most clinics and doctors' offices are not seeing patients. Demand for non-clinical air laid products, which primarily end up in restaurants, has fallen. Toilet paper demand dropped off in May and June due to over stockpiling in March and April. We are currently operating at around 40% of the levels for 2020. We are unable to predict how much longer the pandemic shut-downs will last.

We are currently installing a wet-wipe production line and developing a disinfectant wipe which uses our air laid paper in a small flip-top tub dispenser. Health Canada has approved our formula and issued it a Drug Identification Number. Current demand for the product is high. We expect sales of this product to commence this summer under the trademark ViroBan Plus. We expect volumes to significantly increase our revenues.

Cost of Sales

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

	2020		2019		2018		2017		2016	
	$	% sales	$	% sales	$	% sales	$	% sales	$	% sales
Materials	5,882,856	50.4	5,870,295	51.7	4,941,399	50.3	4,320,428	48.2	3,988,802	51.2
Production labour	962,145	8.2	975,466	8.6	868,011	8.8	832,463	9.3	769,251	9.9
Factory overhead labour	463,599	4.0	468,567	4.1	433,100	4.4	445,605	5.0	351,201	4.5
Variable overhead	508,374	4.4	436,285	3.8	322,600	3.3	332,179	3.7	267,470	3.4
Fixed overhead	216,610	1.9	522,804	4.6	514,913	5.2	503,010	5.6	494,160	6.3
Depreciation of										
- plant equipment	673,109	5.7	675,919	6.0	692,792	7.1	715,081	7.9	472,784	6.1
- right-of-use assets	258,881	2.2	-	-	-	-	-	-	-	-
Total cost of sales	8,965,574	76.8	8,949,336	78.8	7,772,815	79.1	7,148,766	79.7	6,343,668	81.4

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 1.5% of sales in 2020, 2.4% in 2019 and 2.7% in 2018, 2.5% in 2017 and 1.6% in 2016. During part of the 2020 fiscal year, most of the 2019 fiscal year and part of the 2018 fiscal year we had difficulty purchasing paper in optimum grades, which meant we had to substitute heavier grades than standard, resulting in higher paper usage, and sizes, which caused higher than standard wastage.

Paper prices have increased in all fiscal years since 2006 except in our 2017 fiscal year when they were relatively stable. Paper prices can be volatile, additionally, our paper and pulp purchases are denominated in US dollars, which can fluctuate significantly. 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 8.2% of sales during 2020 compared to 8.6% during 2019, 8.8% during 2018, 9.3% during 2017 and 9.9% during 2016. The decrease since 2016 is from improved operating efficiencies. 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, it will be difficult to produce additional products for sale.

Factory overhead labour decreased as a percentage of sales in 2020, 2019 and 2018 due to increased sales volumes after increasing 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 2020, 2019, 2017 and 2016 is higher than previous years due to increased electricity and gas to operate the air laid paper machine. Variable overhead incurred in 2018 was lower than 2017 from lower maintenance costs. Variable overhead also increased in 2020 due to higher waste disposal costs.

Fixed overhead and depreciation changed significantly in 2020 due to the adoption of *IFRS 16, Leases.* We were required to capitalize our premises lease and separate the minimum payments into principal and interest, increasing depreciation expense and reducing rent expense. Depreciation increased by $258,880 and rent decreased by $317,382.

Fixed overhead in 2020 includes $11,189 in higher insurance premiums. Fixed overhead in 2019 includes $10,863 in higher insurance premiums offset by $2,972 in lower rent. Fixed overhead in 2018 includes $10,418 in higher rent and $1,485 in higher insurance premiums over the expense in 2017. 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. Increases in depreciation expense are the result of bringing new equipment into use. The slight decreases in 2019 and 2018 are due to revised estimates of the useful lives of some of the equipment.

Selling Expenses

Selling expenses, as a percentage of sales, in 2020 were similar to 2019 and lower in 2019 than in 2018 because a large portion of the increase in sales is from air laid parent rolls, which is shipped in trailer lots, at a lower cost relative to sales, and on which we pay no commission.

General and Administrative Expenses

General and administrative expenses decreased in 2020 over 2019 due to the recognition of an impairment loss on trade receivables in 2019, offset by increased salaries from higher rates of pay and increased staff. Adoption of *IFRS-16, Leases,* caused administration and office expense to be $23,089 lower in 2020 than 2019 from reduced rent expense, offset by depreciation of the right-of-use asset of $18,889.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Nevertheless, during the year ended March 31, 2019, one of our customers entered into creditor protection proceedings while it attempts to refinance its operations, making the collection of $70,578 in receivables doubtful, for which we have made a full impairment allowance. Recent general economic conditions caused by covid-19 pandemic shut-downs may cause some of our other 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, 2020, trade and other receivables include $19,798 that is more than 30 days past due, not including the receivables written off, and against which we have made no allowance for impairment. We believe that we will eventually receive full payment of these amounts.

During the year ended March 31, 2020, professional fees include $10,355 paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, one of our directors, was a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties. During the year ended March 31, 2020, the Company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $398,395 to key management personnel, comprising the chief executive and chief financial officers and the directors of the Company. $368,902 of the compensation is included in general and administrative salaries and employee benefits, $24,659 is included in administration and office and $4,834 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, trade and other receivables 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 liabilities than US dollar financial assets. Over the past year, our exposure ranged from US$257,121 net assets to US$229,134 net liabilities and averaged US$17,969 net liabilities (calculated on a monthly basis) and at March 31, 2020 net assets were US$257,121. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.41 to Cdn$1.42) 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$2,571 on an exposure of US$257,121. During the year ended March 31, 2020 we realized foreign exchange gains of $20,826 compared to losses of $8,737 in 2019. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

Interest on our revolving bank loan and term bank loan fluctuates with the prime rate of interest. We entered into an interest rate swap during the year ended March 31, 2018 that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap caused us to reflect an unrealized loss of $30,459 during the year ended March 31, 2020 and $19,985 during the year ended March 31, 2019. Fair value losses or gains will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

Interest expense on the lease liabilities recognized on adoption of *IFRS-16, Leases,* calculated 4.45% per annum, was $125,315 during 2020.

Liquidity and Capital Resources

Our operating cash flows were $2,049,423 during the year ended March 31, 2020, an average of $170,785 per month, compared to $121,838 per month during 2019, before accounting for fluctuations in non-cash working capital. At March 31, 2020, we had cash of $394,030 and working capital of $1,183,745 compared to cash of $474,030 and working capital of $1,107,388 at March 31, 2019. The increase is due to improved operating cash flows, offset by dividends, equipment purchases, and term loan interest and principal payments.

We declared and paid a quarterly dividend of $0.0025 per share from September 2018 to March 2020. We have suspended payment of the dividend effective June 2020 in order to ensure sufficient funds are available to invest in our new disinfectant wet-wipe production equipment and inventory. We expect to be in production this summer.

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

We have a revolving bank loan facility of $1,500,000. 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. No loans were outstanding under this facility at March 31, 2020, however an irrevocable letter of credit for US$14,000 was outstanding at March 31, 2020 against the 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 $400,000 and accounts payable by an additional $400,000. 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 until August 22, 2023. 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 or higher. We are in compliance with all of these covenants at March 31, 2020 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 $1,000,000 for production equipment additions and improvements during the next year, which we will finance from operating cash flows.

New Accounting Policies

The International Accounting Standards Board adopted *IFRS 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.

We adopted this standard as of our opening balance sheet for the year ended March 31, 2020 using the modiffied retrospective approach without restatement of prior periods. As a result we recognized a right-to-use asset and a lease liability for our lease of premises and made the adjustments described in note 3 to the consolidated financial statements.

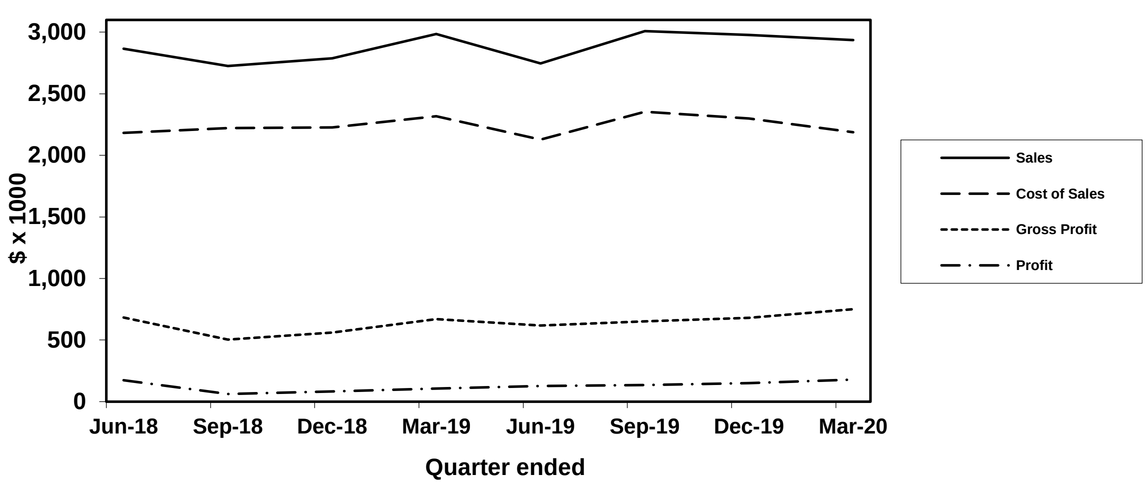
The adoption provisions of IFRS 16 also permit retroactive adoption at the commencement date of the lease with restatement of prior periods. We chose the retrospective approach as it is simpler.

As permitted by IFRS 16, we elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value as the effect would be immaterial.

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.

	Quarters ended							
Cdn$ x 1,000	**Mar 31 2020**	**Dec 31 2019**	**Sep 30 2019**	**Jun 30 2019**	**Mar 31 2019**	**Dec 31 2018**	**Sep 30 2018**	**Jun 30 2018**
Sales	2,936	2,978	3,007	2,746	2,985	2,788	2,726	2,865
Cost of sales	2,186	2,298	2,354	2,128	2,317	2,228	2,223	2,183
Gross profit	750	680	653	618	668	560	503	682
Selling and distribution expenses	224	249	233	216	220	224	207	245
General and administrative expenses	176	184	178	171	253	168	170	172
Operating profit	350	247	242	231	195	168	126	265
Other expenses (income)	87	44	56	59	43	55	39	30
Profit before tax	263	203	186	172	152	113	87	235
Income tax expense	84	52	49	48	48	31	26	62
Profit	179	151	137	124	104	82	61	173
Earnings per share, basic and diluted - Cdn$	0.005	0.004	0.004	0.004	0.003	0.002	0.002	0.005
Dividends paid per share - Cdn$	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.000
Sales - % change over previous quarter	-1.4	-0.9	9.5	-8.0	7.1	2.3	-4.9	19.2
Costs, expenses and net income - % of Sales								
Cost of sales	74.4	77.1	78.3	77.5	77.6	79.9	81.5	76.2
Selling and distribution expenses	7.6	8.3	7.7	7.9	7.4	8.1	7.6	8.5
General and administrative expenses	6.0	6.2	5.9	6.2	8.5	6.0	6.3	6.0
Other expenses (income)	3.0	1.5	1.9	2.1	1.4	2.0	1.4	1.1
Income tax expense	2.9	1.8	1.6	1.8	1.6	1.1	1.0	2.2
Profit	6.1	5.1	4.6	4.5	3.5	2.9	2.2	6.0



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 44% of our sales are priced in US dollars. Sales were 1.4% lower in the quarter ended March 31, 2020 than in the previous quarter, ended December 31, 2019, and 1.6% low than in the quarter ended March 31, 2019.

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. Fixed overhead is lower in 2020 than in 2019 because of the new accounting policy for leases. The factory rent has been reduced and replaced with depreciation of a right-of-use asset.

Share Capital

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

	June 18, 2020
Authorized common shares without par value	Unlimited
Issued common shares	35,515,800
Shares issuable on exercise of outstanding stock options	-
Shares available for future stock option grants	3,551,580

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

Other Information

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.westbond.ca.

Independent auditor's report

To the Shareholders of WestBond Enterprises Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation and its subsidiary (together, the Company) as at March 31, 2020 and 2019 and April 1, 2019, and its financial performance and its cash flows for the years ended March 31, 2020 and 2019 in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2020 and 2019 and April 1, 2019;
- the consolidated statements of profit and comprehensive income for the years ended March 31, 2020 and 2019;
- the consolidated statements of changes in equity for the years ended March 31,2020 and 2019;
- the consolidated statements of cash flows for the years ended March 31, 2020 and 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 18, 2020

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

	Notes	March 31 2020 $	April 1 2019 $ Note 3	March 31 2019 $
ASSETS				
Non-Current Assets				
Plant and equipment	5	7,564,112	7,818,316	7,818,316
Right-of use-assets	3, 6	2,657,020	2,934,789	-
Lease deposits	3	-	-	18,012
Deferred tax asset	9	18,845	9,566	9,566
		10,239,977	10,762,671	7,845,894
Current Assets				
Inventory	7	1,286,708	1,244,081	1,244,081
Trade and other receivables		1,611,361	1,313,774	1,313,774
Prepaid expenses		88,292	57,604	57,604
Cash and cash equivalents		394,051	474,030	474,030
		3,380,412	3,089,489	3,089,489
Total Assets		13,620,389	13,852,160	10,935,383
EQUITY AND LIABILITIES				
Equity				
Common shares issued and outstanding	8	4,138,710	3,903,940	3,903,940
Stock options	8	-	81,770	81,770
Contributed surplus		294,089	294,089	294,089
Retained earnings	3	1,458,218	1,213,860	1,071,338
Equity attributable to common shareholders		5,891,017	5,493,659	5,351,137
Liabilities				
Non-Current Liabilities				
Term bank loans	11	1,726,180	2,440,468	2,440,468
Unrealized loss on interest rate swap	11	64,939	34,480	34,480
Lease liability	3,12	2,514,018	2,722,750	-
Deferred operating lease liability	3	-	-	195,235
Deferred tax liability	9	1,227,568	984,675	931,962
		5,532,705	6,182,373	3,602,145
Current Liabilities				
Term bank loans	11	714,288	714,288	714,288
Lease liability	12	207,983	194,027	-
Trade and other payables	13	1,274,396	1,267,813	1,267,813
		2,196,667	2,176,128	1,982,101
Total Liabilities		7,729,372	8,358,501	5,584,246
Total Equity and Liabilities		13,620,389	13,852,160	10,935,383

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 Profit and Comprehensive Income
(Canadian Dollars)

	Notes	Years ended March 31 2020 $	2019 $
Sales	14	11,667,892	11,363,162
Cost of sales	15	8,965,574	8,949,336
Gross Profit		2,702,318	2,413,826
Selling and distribution expenses	16	922,061	896,493
General and administrative expenses	17	710,094	763,499
Operating Profit		1,070,163	753,834
Foreign exchange (gain) loss		(20,826)	8,737
Interest expense on bank loans		110,585	136,844
Interest expense on lease liabilities		125,315	-
Unrealized loss on interest rate swap		30,459	19,985
Profit Before Tax		824,630	588,268
Income tax expense	9	233,614	167,004
Profit and Comprehensive Income		591,016	421,264
Weighted average shares outstanding		34,373,177	33,692,923
Earnings per share, basic		0.017	0.013
Dilutive effect of stock options outstanding		-	637,500
Fully diluted weighted average shares outstanding		34,373,177	34,330,423
Earnings per share, fully diluted		0.017	0.012

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	Stock Options	Contributed Surplus	Retained Earnings	Total
	$	$	$	$	$
Balance as at March 31, 2018	3,883,225	88,985	294,089	902,943	5,169,242
Exercise of stock option	20,715	(7,215)	-	-	13,500
Dividends paid, $0.075 per share	-	-	-	(252,869)	(252,869)
Profit for the year	-	-	-	421,264	421,264
Balance as at March 31, 2019	3,903,940	81,770	294,089	1,071,338	5,351,137
Adjustment of opening balance on adoption of IFRS 16 (note 3)	-	-	-	142,522	142,522
Balance as at April 1, 2019	3,903,940	81,770	294,089	1,213,860	5,493,659
Exercise of stock options	234,770	(81,770)	-	-	153,000
Dividends paid, $0.01 per share	-	-	-	(346,658)	(346,658)
Profit for the year	-	-	-	591,016	591,016
Balance as at March 31, 2020	4,138,710	-	294,089	1,458,218	5,891,017

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 2020 $	2019 $
Operating Activities			
Profit		591,016	421,264
Adjustments to reconcile profit to cash flows from operating activities			
- depreciation of plant and office equipment		680,665	685,415
- depreciation of right-of-use assets		277,769	-
- deferred operating lease liability		-	31,542
- unrealized loss on interest rate swap		30,459	19,985
- interest expense on bank loans		110,585	136,844
- interest expense on lease liability		125,315	-
- income tax expense		233,614	167,004
Cash flows from operating activities before changes in non-cash working capital		2,049,423	1,462,054
Increase in			
- inventory		(42,627)	(252,578)
- trade and other receivables		(297,587)	(195,780)
- prepaid expenses		(33,508)	(1,190)
Increase in			
- trade and other payables		377	511,286
Net Cash Flows from Operating Activities		1,676,078	1,523,792
Investing Activities			
Purchase of plant and equipment	18	(430,537)	(361,554)
Financing Activities			
Repayment of term bank loans		(714,288)	(714,288)
Interest paid on bank loans		(107,764)	(136,844)
Interest portion of lease payments		(115,034)	-
Principal portion of lease payments		(194,776)	-
Exercise of stock options		153,000	13,500
Dividends paid		(346,658)	(252,869)
Net Cash Flows used in Financing Activities		(1,325,520)	(1,090,501)
Net (Decrease) Increase in Cash and Cash Equivalents		(79,979)	71,737
Cash and Cash Equivalents at the Beginning of the Year		474,030	402,293
Cash and Cash Equivalents at the End of the Year		394,051	474,030

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

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, 2020 were authorized for issue by resolution of the directors on June 18**,** 2020.

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 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

(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.

Right-of-Use Assets

The International Accounting Standards Board issued *IFRS 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.

The company adopted this standard as of its opening statement of financial position for the year ended March 31, 2020 using the modified retrospective approach without restatement of prior periods. As a result it recognized a right-to-use asset and a lease liability for its lease of premises (note 12) and made the adjustments described in the following table. The lease liability recorded is the present value of the remaining lease payments from the date of adoption to the end of the lease term, including the period covered by an option to extend the lease if the company is reasonably certain to exercise that option. Lease payments are discounted using the company’s incremental borrowing rate at April 1, 2019 of 4.45%. The company elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value.

	Non-Current Assets	Equity	Non-Current Liabilities	Current Liabilities
	$	$	$	$
Ending Statement of Financial Position at March 31, 2019	7,845,894	5,351,137	3,602,145	1,982,101
Reversal of deferred lease liability	-	195,235	(195,235)	-
Related increase in deferred tax liability	-	(52,713)	52,713	-
Recognition of right-of-use asset and related lease liability	2,934,789	-	2,740,762	194,027
Application of lease deposits to lease liability	(18,012)	-	(18,012)	-
Opening Statement of Financial Position at April 1, 2019	10,762,671	5,493,659	6,182,373	2,176,128

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

Until March 31, 2019 leases were accounted for under International Accounting Standard 17 – *Leases* as prescribed by IFRS and rent expense was recorded on a straight-line basis over the term of the lease beginning on the possession date. Accordingly, reasonably assured rent escalations were amortized over the lease term, and free-rent periods were allocated to a portion of rent expense. The difference between the recognized rental expense and the total rental payments was 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, were 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.

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.

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

(ii) Financial Assets at Fair Value: Financial assets not meeting the criteria for subsequent measurement at amortized cost are initially and subsequently measured at fair value. The company's cash and cash equivalents are in this category. Gains or losses arising from changes in fair value are recognized in profit or loss unless the financial asset is an equity instrument that is not held for trading and the company has made an irrevocable election at initial recognition to present subsequent changes in its fair value in other comprehensive income.

(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. The company's interest rate swap contract is classified in this category.

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.

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.

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

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.

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

The company sells goods that it has manufactured to its customers based on contracts comprising a purchase order from the customer and an order confirmation sent to the customer that sets the prices for the goods ordered. Revenue from contracts with customers is recognized when the goods are shipped, which is when control of the products transfers to the customer and the company has no remaining performance obligations, provided it is probable that the company will collect the selling price for the goods.

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.

Judgments and Estimates

The preparation of consolidated financial statements requires the company’s management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and the disclosures in the notes to the consolidated financial statements. Actual results may differ from these estimates. Significant judgments and estimates are made in the determination of the net realizable value of inventories and the useful lives of plant and equipment.

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

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.

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

Effects of Covid-19 Coronavirus Pandemic

Efforts to slow the spread of the covid-19 coronavirus have led to the closure of some non-essential businesses in markets which we sell to. This has impacted the demand for some of our products. It is difficult to estimate the nature, timing and extent of the business and economic impact on pricing, customer demand and distribution networks and consequently, our financial and operating performance. This uncertainty could materially affect our operations and financial condition. The uncertainty could also materially affect estimates, including the valuation of plant and equipment and trade and other receivables. Actual results in future periods may materially differ from these estimates.

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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 interest rate swaps. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Interest rate swaps are carried at fair value. Trade and other receivables and all non-interest rate swap 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.

Cash and cash equivalents and interest rate swaps are measured using level 1 inputs. Trade and other receivables, 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.

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. Nevertheless, during the year ended March 31, 2020 the company recognized an impairment loss of $3,749 on trade receivables. During the year ended March 31, 2019, one of its customers entered into creditor protection proceedings and is attempting to refinance its operations, making the collection of $70,578 in receivables doubtful, for which the company has made a full impairment allowance. At March 31, 2020 $16,177 (2019 – $29,698) of trade and other receivables were between 31 and 60 days past due and $3,621 (2019 – $nil) were more than 60 days past due, not including the receivables written off. The company does not expect credit losses based on a review of the debtors' operations and subsequent payments. At March 31, 2020 the amount of $678,769 was due from one customer (2019 – $618,137, three customers) each of whom represented more than 10% and together represented an aggregate of

4. FINANCIAL INSTRUMENTS (continued)

42% of trade and other receivables (2019 – 47%). Two of the customers are long standing customers who consistently make regular payments and the third promptly pays within 15 days.

The company's revolving bank loan and term bank loan are at interest rates that fluctuate with market interest rates. The company has entered into an interest rate swap that effectively fixes the rate of interest on the term bank loan at 3.88% until November 22, 2022, which eliminates cash flow risk from the term loan interest. Changes in the fair value of the interest rate swap are reflected in profit, but will remain unrealized as long as the swap contract is held to maturity, at which point its fair value will be zero.

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 liabilities than US dollar financial assets. Over the past year, the exposure ranged from US$257,121 net assets to US$229,134 net liabilities and averaged US$17,969 net liabilities (calculated on a monthly basis) and, at March 31, 2020, net assets were US$257,121. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.41 to Cdn$1.42) 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$2,571 on an exposure of US$257,121. During the year ended March 31, 2020 the company realized foreign exchange gains of $20,826 (2019 – losses of $8,737). 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.

(Canadian Dollars)

5. PLANT AND EQUIPMENT

	Factory equipment $	Leasehold improvements $	Office equipment $	Total $
At March 31, 2018				
Cost	12,711,347	159,119	139,199	13,009,665
Accumulated depreciation	(4,728,982)	(24,132)	(88,452)	(4,841,566)
Net book value	7,982,365	134,987	50,747	8,168,099
Additions	320,108	10,703	4,821	335,632
Disposals – cost	(160,204)	-	(3,930)	(164,134)
Disposals – accumulated depreciation	160,204	-	3,930	164,134
Depreciation	(668,111)	(7,807)	(9,497)	(685,415)
At March 31, 2019				
Cost	12,871,251	169,822	140,090	13,181,163
Accumulated depreciation	(5,236,889)	(31,939)	(94,019)	(5,362,847)
Net book value	7,634,362	137,883	46,071	7,818,316
Additions	423,881	-	2,580	426,461
Disposals – cost	(110,444)	-	-	(110,444)
Disposals – accumulated depreciation	110,444	-	-	110,444
Depreciation	(664,440)	(8,670)	(7,555)	(680,665)
At March 31, 2020				
Cost	13,184,688	169,822	142,670	13,497,180
Accumulated depreciation	(5,790,885)	(40,609)	(101,574)	(5,933,068)
Net book value	7,393,803	129,213	41,096	7,564,112

Included in factory equipment at March 31, 2020 is equipment costing $364,967 (2019– $179,136) that was under construction or refurbishment or had not otherwise been made available for use. Substantially all of the plant and equipment has been pledged as collateral for the company's bank loans (notes 10 and 11).

6. RIGHT-OF-USE ASSETS

The company has leased premises until October 31, 2029. The value recorded for the right-of-use assets at April 1, 2019 is the future minimum lease payments discounted at the rate of 4.45%. Depreciation of the right-of-use assets is on the straight-line basis over the term of the lease.

(Canadian Dollars)

6. RIGHT-OF-USE ASSETS (continued)

	2020	2019
	$	$
Cost	2,934,789	2,934,789
Accumulated depreciation	277,769	-
Net book value	2,657,020	2,934,789

7. INVENTORY

	2020	2019
	$	$
Raw materials	991,670	943,014
Finished goods	295,038	301,067
Total inventory	1,286,708	1,244,081

All of the inventory has been pledged as collateral for the company's bank loans (notes 10 and 11).

8. SHARE CAPITAL

Authorized

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

Issued

	Common Shares Issued	
	Number	Ascribed Value
		$
Outstanding at March 31, 2018	33,665,800	3,883,225
Issued on the exercise of stock options	150,000	20,715
Outstanding at March 31, 2019	33,815,800	3,903,940
Issued on the exercise of stock options	1,700,000	234,770
Outstanding at March 31, 2020	35,515,800	4,138,710

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. No options have been granted under this plan.

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

8 SHARE CAPITAL (continued)

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. An option to purchase 150,000 shares was forfeited during the year ended March 31, 2018 after the resignation of the holder. An option to purchase 150,000 shares was exercised during the year ended March 31, 2019. The options on the remaining 1,700,000 shares were exercised during the year ended March 31, 2020.

(Canadian Dollars)

9. 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:

	March 31 2020	April 1 2019	March 31 2019
	$	$	$
Operating losses carried forward	18,845	9,566	9,566
Allowable capital losses carried forward	39,803	35,691	35,691
	58,648	45,257	45,257
Valuation allowance	(39,803)	(35,691)	(35,691)
Net deferred tax asset	18,845	9,566	9,566
Plant and equipment	1,831,827	1,955,340	1,955,340
Right-of-use assets	717,395	792,393	-
Lease liabilities	(734,940)	(787,530)	-
Operating losses carried forward	(586,714)	(975,528)	(1,023,378)
Net deferred tax liability	1,227,568	984,675	931,962

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.

	2020	2019
Combined statutory rate	27.00%	27.00%
	$	$
Income tax expense based on the statutory rates	222,650	158,832
Tax effect of expenses that are not deductible for income tax purposes	6,852	5,474
Increase in valuation allowance	4,112	2,698
Income tax expense for the year	233,614	167,004
Current portion	-	-
Deferred portion	233,614	167,004

10. 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. Loans outstanding under the facility bear interest at bank prime rate plus 0.5% per annum and are payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral. No loans were outstanding under this facility at March 31, 2020 or 2019, however an irrevocable letter of credit for US$14,000 was outstanding at March 31, 2020 (2019 – $69,200) against the loan facility.

The company has covenanted with the bank to maintain various financial ratios and was in compliance with these covenants at March 31, 2020.

11. 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 with a final payment of the balance of principal in August 2023. Interest is payable monthly at bank prime rate plus 0.5% per annum. The company has entered into an interest rate swap with an effective date of December 22, 2017 and a maturity date of November 22, 2022. This swap effectively fixes the interest on the term bank loan to 3.88% per annum, comprising 2.38% which is fixed under the swap and a 1.5% credit charge.

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 10) also apply to the term loan facility.

(Canadian Dollars)

12. LEASE LIABILITY

The company has leased premises until October 31, 2029. Future minimum lease payments have been discounted at the rate of 4.45% as follows:

Years ending March 31	Principal Portion	Interest Portion	Total
	$	$	$
2021	207,983	116,882	324,865
2022	217,423	107,442	324,865
2023	238,123	97,496	335,619
2024	264,216	86,458	350,674
2025	281,844	74,206	356,050
2026	302,390	61,188	363,578
2027	316,114	47,464	363,578
2028	335,806	33,149	368,955
2029	358,872	17,610	376,482
2030	199,230	2,373	201,603

Operating costs and property taxes for the premises, currently estimated at $149,000 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2020 the company expensed $142,874 (2019 – $152,747) in additional lease payments for operating costs and property taxes on its lease for premises and $2,098 in lease payments for which the underlying assets are of low value.

13. TRADE AND OTHER PAYABLES

	2020	2019
	$	$
Payable to suppliers for trade purchases	1,029,539	1,032,745
Payable to employees for wages and expenses	152,219	139,107
Payable to governments for withholding and sales taxes	34,158	50,810
Accrued liabilities	58,480	45,151
	1,274,396	1,267,813

14. SALES

	2020	2019
	$	$
Personal hygiene products	3,570,404	4,046,919
Clinical products	2,061,075	1,823,461
Long-term care products	1,868,135	1,992,870
Non-clinical air laid products	4,118,076	3,419,296
Other products	50,202	80,616
	11,667,892	11,363,162

(Canadian Dollars)

15. COST OF SALES

	2020	2019
	$	$
Materials	5,882,856	5,870,295
Production labour	962,145	975,466
Factory overhead labour	463,599	468,567
Variable overhead	508,374	436,285
Fixed overhead	216,610	522,804
Depreciation of plant equipment	673,109	675,919
Depreciation of right-of-use assets	258,881	-
	8,965,574	8,949,336

16. SELLING AND DISTRIBUTION EXPENSES

	2020	2019
	$	$
Shipping	789,249	777,028
Wages, commissions and other employee benefits	110,323	103,872
Other	22,489	15,593
	922,061	896,493

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
	$	$
Administration and office	121,065	149,774
Corporate promotion	10,376	12,996
Depreciation of right-of-use assets	18,889	-
Impairment loss on trade receivables	3,749	70,578
Professional fees	59,215	62,737
Salaries and other employee benefits	496,800	467,414
	710,094	763,499

18. SUPPLEMENTARY CASH FLOW INFORMATION

During the year ended March 31, 2020 trade and other payables related to the purchase of plant and equipment decreased by $4,076 (2019 – $25,922).

19. SEGMENTED INFORMATION

The company operates in one industry, disposable paper products. The company’s plant and equipment are located in Canada. During the year ended March 31, 2020 the company had domestic sales in Canada of $6,550,345 (2019 – $6,404,052) and export sales to the United States and its territories of $5,117,547 (2019 – $4,959,110). During the year ended March 31, 2020 the company had sales to two customers of $4,745,878 (2019 – three customers, $5,109,847), each of whom represented more than 10% of sales.

20. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2020:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $398,395 (2019 – $399,389) to directors and officers of the company; and
- The company incurred $10,355 (2019 – $11,328) of legal fees in the normal course of operations with a firm in which a director of the company was a partner.

21. 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, 2020 and 2019.