



WestBond Enterprises Corporation

Quarterly Report December 31, 2023

Management Discussion and Analysis

Dated February 22, 2024 to Accompany the Interim Consolidated Financial Statements for the Three and Nine Month Period Ended December 31, 2023

Caution Regarding Forward Looking Statements – There are many risk factors and uncertainties that may affect the company’s actual results, performance, achievements, or developments. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and the company cannot assure investors that actual results, performance, achievements, or developments that the company anticipates will be realized. Forward-looking statements are based on the beliefs of management and reflect management’s current plans, expectations, estimates, projections, beliefs and opinions and the company does not undertake any obligation to update forward-looking statements should the assumptions related to these expectations, plans, estimates, projections, beliefs, and opinions change, except as required by law. The forward-looking statements contained in this MD&A speak only as of the date of this MD&A.

Description of Our Business

We, WestBond Enterprises Corporation or the “Company”, are a paper manufacturer and converter that manufactures disposable paper products for many market segments. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2023 Annual Report. A pdf version of the 2023 Annual Report may be downloaded from our web site at www.westbond.ca or from the SEDAR web site at www.sedar.com. For a printed copy, please contact the Company. Additional information on the Company is also available on our web site and on the SEDAR web site.

Discussion of Operations and Financial Condition

You should refer to our interim consolidated financial statements for the three and nine month period ended December 31, 2023 and our consolidated financial statements for the year ended March 31, 2023 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. You should also refer to the Management Discussion and Analysis that was included in our 2023 Annual Report. Information included in that discussion is only updated in this discussion. Information that has not changed materially since June 29, 2023, the date of the Management Discussion and Analysis in the 2023 Annual Report, is not repeated here.

Sales were \$2,238,900 for the three months ended December 31, 2023, which is 5.1% lower than for the three months ended December 31, 2022. We realized a loss of \$51,828 (\$-0.001 per share) for the three months ended December 31, 2023 compared to a gain of \$74,763 for the three months ended September 30, 2023. For the three month period ending December 31, 2022, we had a loss of \$19,050 (\$-0.001 per share). The decrease in profits compared to last quarter ending September 30, 2023 was a result of a decrease in sales of personal hygiene and non-clinical airlaid products, and wipes. Additionally, the direct cost of sales increased for all categories except materials. The table and graph on the next page show the trends over the past eight quarters.

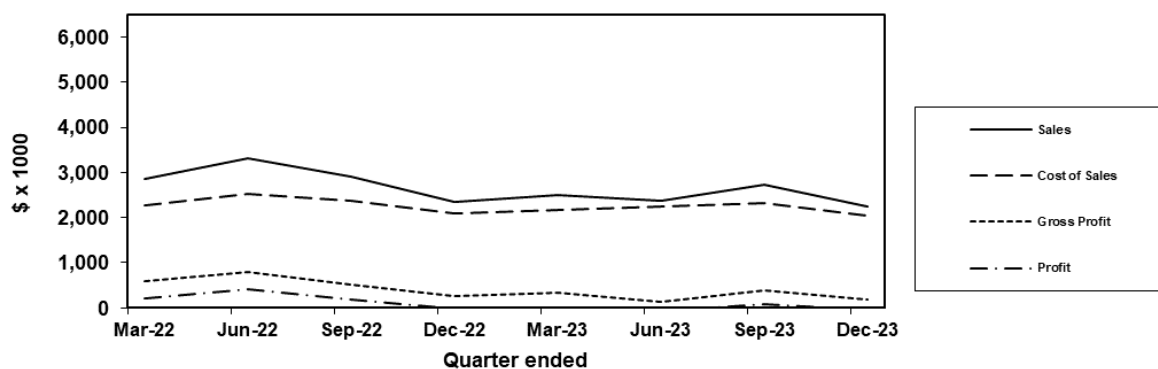
Summary of Quarterly Results

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							
	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
	2023	2023	2023	2023	2022	2022	2022	2022
Sales	2,239	2,718	2,367	2,510	2,360	2,898	3,321	2,845
Cost of Sales	2,041	2,322	2,237	2,166	2,100	2,372	2,513	2,264
Gross Profit	198	396	130	344	260	526	808	581
Selling and distribution expenses	35	46	44	39	40	35	34	28
General and administrative expenses	204	201	149	269	193	202	196	203
Operating profit	(41)	149	(63)	36	27	289	578	350
Other expenses	29	46	31	2	45	37	11	39
Profit before Tax	(70)	103	(94)	34	(18)	252	567	311
Income Tax Expense	(18)	28	(25)	40	1	69	152	88
Profit	(52)	75	(69)	(6)	(19)	183	415	223
Earnings per share, basic and diluted-Cdn\$	(0.001)	0.002	(0.002)	0.000	(0.001)	0.005	0.012	0.006
Dividends paid per share - Cdn\$	-	-	-	-	-	0.005	0.005	0.005
Sales % change over previous quarter	-17.60	14.80	-5.70	6.40	-18.60	-12.70	16.80	-1.30

Costs, expenses and net income - % of Sales

Cost of Sales	91.2	85.4	94.5	86.3	89.1	81.8	75.7	79.6
Selling and distribution expenses	1.6	1.7	1.9	1.5	1.7	1.2	1.0	1.0
General and administrative expenses	9.1	7.4	6.3	10.7	8.2	7.0	5.9	7.1
Other expenses	1.3	1.7	1.3	0.1	1.9	1.3	0.3	1.4
Income Tax Expense	-0.8	1.0	-1.1	1.6	0.0	2.4	4.6	3.1
Net profit	-2.3	2.8	-2.9	-0.2	-0.8	6.3	12.5	7.8



Sales

Sales for the three months ended December 31, 2023 were 5.1% lower than for the same period last year and 17.6% lower than the previous quarter, ended September 30, 2023. The decrease in profits compared to last quarter ending September 30, 2023 was a result of a decrease in sales of personal hygiene, wipes, and non-clinical airlaid products (primarily airlaid parent rolls). Additionally, the direct cost of sales increased for all categories except materials.

Compared to the three months ended December 31, 2022, except for non-clinical airlaid products, sales have increased for all remaining product lines. The decrease in sales of non-clinical airlaid products has offset the increase in sales in all other product categories. The decreased sales of airlaid parent rolls is a continued effect from one of our customer's change in ownership and ceasing to purchase from us since April 2023. With the decrease in airlaid parent roll sales, we now focus on developing additional end user markets which should yield higher profit margins. In addition, we are investing in faster, more-efficient new equipment to add to our diverse line of products. This new equipment will add capacity to support these new markets.

We are now supplying airlaid napkins to a major, high profile national restaurant chain with a customized product. Additionally, major American restaurant supply distributors have placed trial orders for our airlaid napkins. Demand for our products remain high and we are launching a rebranding of these products to aid in our marketing efforts.

With improved staffing, we have been able to eliminate our backlog of unshipped orders that persisted for several quarters in 2023.

Sales	Three Months ended		Change over last year	Nine Months ended		Change over last year
	December 31			December 31		
	2023	2022		2023	2022	
<u>Product Line</u>	\$	\$		\$	\$	
Personal Hygiene	490,902	466,614	5.2%	1,828,390	1,663,425	9.9%
Clinical	485,392	250,279	93.9%	1,421,359	902,598	57.5%
Wipes	630,667	512,983	22.9%	1,787,583	1,423,056	25.6%
Non-clinical air laid products	631,231	1,129,954	-44.1%	2,215,941	4,582,271	-51.6%
Other	707	22	3108.3%	70,633	8,037	778.8%
	<u>2,238,900</u>	<u>2,359,853</u>	<u>-5.1%</u>	<u>7,323,907</u>	<u>8,579,387</u>	<u>-14.6%</u>

Cost of Sales

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. Materials costs were lower in the quarter ended December 31, 2023 than in the quarter ended December 31, 2022 as a percentage of sales. Compared to the same quarter in 2022, production labour and factory overhead labour costs increased because of overtime payments made necessary to fill backlogged orders, new hires, consultant fees, severance payments and year-end bonuses to hourly employees. The general decrease in variable overhead is due to lower costs in maintenance parts, factory overhead supplies, waste disposal and gas, offset by higher costs in electricity usage. Shipping cost is lower in this quarter compared to the last quarter because sales have been lower in this quarter. As recommended by our external auditors, the shipping costs that were reported as selling and distribution expenses in the previous fiscal year, are now reported as cost of sales. Depreciation increased in 2023 as more assets were put into service.

Cost of Sales	Three Months ended December 31		Nine Months ended December 31	
	% of Sales			
	2023	2022	2023	2022
Materials	42.9%	46.0%	45.1%	44.7%
Production labour	11.4%	10.3%	10.6%	8.2%
Factory overhead labour	5.4%	4.6%	5.0%	4.0%
Variable overhead	5.0%	5.9%	4.7%	5.4%
Fixed overhead	3.5%	3.1%	3.2%	2.5%
Shipping	8.9%	3.1%	8.7%	7.2%
Depreciation of plant equipment	11.2%	8.5%	10.1%	7.1%
Depreciation of right of use assets	2.9%	2.8%	2.7%	2.3%
Gross Profit	8.8%	15.7%	9.9%	18.6%

Selling and Distribution Expenses

Selling and distribution expenses during the three months ended December 31, 2023 were 1.6% of sales, compared to 1.7% for the three months ended December 31, 2022. The percentage cost in 2023 was lower due to a decrease in sales commissions, and shipping wages. As recommended by our external auditors, the shipping costs that were previously reported in this category are now reported as cost of sales.

General and Administrative Expenses

Administrative and office expenses are lower in the three months ended December 31, 2023 than in the quarter ended December 31 2022. The decrease is offset by an increase in salaries and benefits mostly due to the office manager returning from maternity leave in March 2023.

During the nine months ended December 31, 2023 the company incurred total short-term employee benefits of \$293,570 (2022 – \$296,566) to its key management personnel, comprising the directors and officers of the company, and incurred \$14,168 (2022 – \$16,562) of professional fees in the normal course of operations paid to DuMoulin Black LLP, a law firm with which J. Douglas Seppala, a director of the company, is associated. The professional fees are for legal services provided to the Company at rates normally charged to arm's length parties.

Other Income and Expenses

Fluctuations in the US dollar exchange rate resulted in a \$4,167 gain during the three months ended December 31, 2023, compared with a \$3,697 gain in the same period last year. Compared to the previous quarter, interest expense on bank loan is lower because of a lower balance on the revolving bank loan. Interest on lease liabilities is lower in 2023 than 2022 because of a lower principal balance.

Liquidity, Financial Position and Capital Resources

Our operating cash flows, before accounting for fluctuations in non-cash working capital were \$538,460 during the nine months ended December 31, 2023, an average of \$59,829 per month, compared to an average of \$181,109 per month during the year ended March 31, 2023. The decrease is a result of lower sales and profit for the period. We had working capital of \$1,847,214 at December 31, 2023, compared to \$1,606,819 at March 31, 2023. The change is due to increased inventory, trade and other receivables, revolving bank loan, and trade and other payables, offset by decreased prepaid expenses, cash and cash equivalents, term bank loans, and Income tax payables.

We intend to spend around \$300,000 on production equipment additions and improvements over the next year, which we will finance from operating cash flows, supplemented by our revolving bank loan facility.

We have a revolving bank loan facility of \$1,500,000. The loan outstanding at any time may not be greater than an amount based on percentages of accounts receivable and inventory less accounts payable having priority over the bank. The amount currently available, based on our Consolidated Statement of Financial Position at December 31, 2023, is \$1,366,144. Loans outstanding under the facility bear interest at bank prime plus 0.5%. Substantially all of our assets are pledged as collateral for the revolving bank loan facility. \$615,000 was outstanding under the revolving bank loan facility at December 31, 2023.

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. Accounts payable can also fluctuate by as much as \$400,000. We purchase our pulp and paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We had a term loan credit facility which was used for the purchase of our binder bonded air laid paper making machine. The final payment of the balance of principal was made on August 31, 2023. This loan is now fully repaid.

At December 31, 2023 we are in compliance with all of our covenants to the bank regarding the revolving bank loan facility and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with the covenants and are unable to obtain a waiver from the bank, the revolving bank loan will become payable on demand.

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>February 22, 2024</u>
Authorized common shares without par value	Unlimited
Issued common shares	35,625,800
Shares issuable on exercise of outstanding stock options	960,000
Shares available for future stock option grants	2,602,580

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

Changes in accounting policies including first-time adoption

The company notes that there is a change in the classification of "Shipping" costs in our financial reports starting in quarter ended June 30, 2023. Upon our external auditor's recommendation, we have added shipping costs to the Cost of sales category and removed it from Selling and distribution expenses category. For equitable comparison in this report, we have adjusted all numbers reported in previous periods to reflect this change.

Other Information

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



WestBond Enterprises Corporation

Notice to Reader

The accompanying interim consolidated financial statements of WestBond Enterprises Corporation for the three and nine month periods ended December 31, 2023 and 2022 have been prepared by and are the responsibility of the company's management. They are unaudited and have not been reviewed by independent auditors.

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

	December 31 2023 \$	March 31 2023 \$
ASSETS		
Non-Current Assets		
Plant and equipment	7,759,380	8,192,735
Right-of-use assets	1,617,283	1,825,989
Deferred tax asset	58,617	41,777
	<u>9,435,280</u>	<u>10,060,501</u>
Current Assets		
Inventory	2,185,121	1,809,934
Trade and other receivables	1,310,123	1,082,042
Income tax recoverable	1,794	-
Prepaid expenses	180,365	394,757
Cash and cash equivalents	63,279	73,471
	<u>3,740,682</u>	<u>3,360,205</u>
Total Assets	<u>13,175,962</u>	<u>13,420,706</u>
EQUITY AND LIABILITIES		
Equity		
Common shares issued and outstanding	4,206,910	4,206,910
Stock options	67,200	81,200
Contributed surplus	325,589	311,589
Retained earnings	3,185,199	3,231,637
Equity attributable to common shareholders	<u>7,784,898</u>	<u>7,831,336</u>
Liabilities		
Non-Current Liabilities		
Lease liability	1,586,172	1,794,257
Deferred tax liability	1,911,424	2,041,727
	<u>3,497,596</u>	<u>3,835,984</u>
Current Liabilities		
Revolving bank loans	615,000	12,351
Term bank loans	-	297,783
Lease liability	275,355	264,215
Income tax payable	-	322,449
Trade and other payables	1,003,113	856,588
	<u>1,893,468</u>	<u>1,753,386</u>
Total Liabilities	<u>5,391,064</u>	<u>5,589,370</u>
Total Equity and Liabilities	<u>13,175,962</u>	<u>13,420,706</u>

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

WestBond Enterprises Corporation
Consolidated Statements of Profit and Comprehensive Income
Canadian Dollars
(Unaudited)

	Notes	Three months ended		Nine months ended	
		December 31		December 31	
		2023	2022	2023	2022
		\$	\$	\$	\$
Sales	5	2,238,900	2,359,853	7,323,908	8,579,387
Cost of sales	6	2,040,925	2,099,364	6,600,108	6,985,369
Gross Profit		197,975	260,489	723,800	1,594,018
Selling and distribution expenses	7	34,704	40,204	125,517	108,588
General and administrative expenses	8	203,864	193,268	553,821	590,996
Operating Profit (Loss)		(40,593)	27,017	44,462	894,434
Foreign exchange (gain) loss		(4,167)	(3,697)	3,581	(17,957)
Interest expense-bank loans		11,990	23,497	36,220	41,328
Interest expense on lease liability		21,115	24,036	65,317	73,786
Unrealized loss on interest rate swap		-	1,546	-	(3,914)
Profit (Loss) Before Tax		(69,531)	(18,365)	(60,656)	801,191
Income tax expense		(17,703)	685	(14,217)	221,966
Profit (Loss) and Comprehensive Income		(51,828)	(19,050)	(46,439)	579,225
Weighted average shares outstanding		35,625,800	35,625,800	35,625,800	35,625,800
Earnings per share, basic and fully diluted		(0.001)	(0.001)	(0.001)	0.016

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

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

	Common Shares	Stock Options	Contributed Surplus	Retained Earnings	Total
	\$	\$	\$	\$	\$
Balance as at March 31, 2022	4,206,910	98,700	294,089	3,191,474	7,791,173
Dividends paid, \$0.005 per share	-	-	-	(534,387)	(534,387)
Forfeiture of stock options	-	(17,500)	17,500	-	-
Profit for the period	-	-	-	579,225	579,225
Balance as at December 31, 2022	4,206,910	81,200	311,589	3,236,312	7,836,011
Balance as at March 31, 2023	4,206,910	81,200	311,589	3,231,637	7,831,336
Forfeiture of stock options	-	(14,000)	14,000	-	-
Profit (Loss) for the period	-	-	-	(46,439)	(46,439)
Balance as at December 31, 2023	4,206,910	67,200	325,589	3,185,199	7,784,897

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

WestBond Enterprises Corporation

Consolidated Statements of Cash Flows

Canadian Dollars

(Unaudited)

Notes	Three months ended December 31		Nine months ended December 31	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating Activities				
Profit (Loss)	(51,828)	(19,050)	(46,439)	579,225
Adjustments to reconcile profit to cash flows from operating activities				
- depreciation of plant and office equipment	253,106	201,792	746,042	611,526
- depreciation of right-of-use assets	69,822	69,822	208,706	208,706
- unrealized gain on interest rate swap	-	1,546	-	(3,914)
- interest expense on bank loans	11,990	23,497	36,220	41,328
- interest expense on lease liabilities	21,115	24,036	65,317	73,786
- income tax expense	(17,703)	685	(14,217)	221,966
- income tax recovered (paid)	(235,333)	(21,510)	(457,169)	99,745
Cash flows from operating activities before changes in non-cash working capital	51,169	280,818	538,460	1,832,368
Decrease (increase) in				
- inventory	(153,575)	167,765	(375,187)	129,642
- trade and other receivables	236,856	96,378	(228,081)	92,554
- prepaid expenses	(55,782)	(47,116)	214,392	(91,637)
- trade and other payables	203,775	(130,422)	147,660	(1,272)
Net Cash Flow from Operating Activities	282,443	367,424	297,244	1,961,655
Investing Activities				
Purchase of plant and equipment	(54,198)	(140,588)	(320,853)	(335,017)
Net Cash Flow from Investing Activities	(54,198)	(140,588)	(320,853)	(335,017)
Financing Activities				
Repayment of term bank loans	-	(178,572)	(297,783)	(535,716)
Interest paid on bank loans	(11,990)	(23,307)	(36,220)	(41,328)
Increase (decrease) in revolving bank loans	(165,000)	-	602,649	(86,537)
Interest portion of lease payments	(21,131)	(24,002)	(58,286)	(65,767)
Principal portion of lease payments	(66,538)	(61,516)	(196,945)	(173,509)
Dividends paid	-	(178,129)	-	(534,387)
Net Cash Flow from Financing Activities	(264,659)	(465,526)	13,415	(1,437,244)
Net Increase (Decrease) in Cash and Cash Equivalents	(36,412)	(238,690)	(10,212)	189,395
Cash and Cash Equivalents at the Beginning of the Period	99,690	696,155	73,490	1,737,818
Cash and Cash Equivalents at the End of the Period	63,278	457,465	63,278	1,927,213

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

WESTBOND ENTERPRISES CORPORATION

Notes to the Interim Consolidated Financial Statements

December 31, 2023 and 2022

(Canadian Dollars)

(unaudited)

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 the medical, personal hygiene and food service/hospitality markets. 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 101 – 7403 Progress Way, Delta, British Columbia.

The interim consolidated financial statements of the company for the three and nine month periods ended December 31, 2023 were approved and authorized for issue by resolution of the directors on February 20, 2024.

2. BASIS OF PREPARATION AND INTERIM PERIOD REPORTING

The interim consolidated financial statements of the company have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting*, ("IAS 34"). The policies applied in these interim consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending March 31, 2024 could result in restatement of these interim consolidated financial statements. The interim consolidated financial statements have been prepared under the historical cost convention.

The company notes that there is a change in the classification of "Shipping" costs in our financial reports starting in quarter ended June 30, 2023. Upon our external auditor's recommendation, we have added shipping costs to the Cost of sales category and removed it from Selling and distribution expenses category. For equitable comparison, in this report we have adjusted all numbers reported in previous periods to reflect this change.

Except for the allocation of the Shipping cost, as explained above, the same accounting policies and methods of computation were followed in the preparation of these interim consolidated financial statements as in the consolidated financial statements for the year ended March 31, 2023.

The disclosure contained in these interim consolidated financial statements is condensed and includes only selected explanatory notes and does not duplicate or repeat disclosure reported in the consolidated financial statements for the year ended March 31, 2023 that has not changed materially since their date of issue. Accordingly, these interim consolidated financial statements should only be read in conjunction with the consolidated financial statements of the company for the year ended March 31, 2023.

3. RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2023 the company incurred total compensation, comprising short-term employee benefits, of \$293,570 (2022 – \$296,566), to the directors and officers of the company and incurred \$14,168 (2022 – \$16,562) of legal fees in the normal course of operations with a firm in which a director of the company is associated.

WESTBOND ENTERPRISES CORPORATION

Notes to the Interim Consolidated Financial Statements

December 31, 2023 and 2022

Canadian Dollars

(unaudited)

	Three months ended		Nine months ended	
	December 31		December 31	
	2023	2022	2023	2022
	\$	\$	\$	\$
5. SALES				
Personal hygiene products	490,901	466,614	1,828,390	1,663,425
Clinical products	485,392	250,279	1,421,359	902,598
Wipes	630,667	512,983	1,787,583	1,423,056
Non-wipe air laid products	631,231	1,129,955	2,215,941	4,582,271
Other products	709	22	70,635	8,037
	<u>2,238,900</u>	<u>2,359,853</u>	<u>7,323,908</u>	<u>8,579,387</u>
6. COST OF SALES				
Materials	961,296	1,084,645	3,305,913	3,832,514
Production labour	255,689	243,275	777,502	705,518
Factory overhead labour	119,754	109,519	365,700	346,308
Variable overhead	111,579	140,327	343,880	462,107
Fixed overhead	78,343	73,060	237,364	218,392
Shipping	199,318	183,583	638,220	620,657
Depreciation of plant equipment	249,872	199,881	737,015	605,359
Depreciation of right-of-use assets	65,074	65,074	194,514	194,514
	<u>2,040,925</u>	<u>2,099,364</u>	<u>6,600,108</u>	<u>6,985,369</u>
7. SELLING AND DISTRIBUTION EXPENSES				
Wages, commissions and other employee benefits	27,001	35,804	107,465	97,663
Other	7,703	4,400	18,052	10,925
	<u>34,704</u>	<u>40,204</u>	<u>125,517</u>	<u>108,588</u>
8. GENERAL AND ADMINISTRATIVE EXPENSES				
Administration and office	32,330	40,538	100,502	112,948
Corporate promotion	3,254	2,252	7,479	7,932
Depreciation of right-of-use assets	4,748	4,748	14,192	14,192
Impairment (gain) loss on trade receivables	-	(218)	(50,000)	(708)
Professional fees	19,903	20,912	67,374	70,353
Salaries and other employee benefits	143,629	125,036	414,274	386,279
	<u>203,864</u>	<u>193,268</u>	<u>553,821</u>	<u>590,996</u>
9. NON-CASH INVESTING ACTIVITIES				
Increase (decrease) in accounts payable related to purchase of plant and equipment	(1,864)	(6,506)	(8,166)	19,938