WestBond Enterprises Corporation

2024 Annual Report

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WestBond Enterprises Corporation

Management Discussion and Analysis

dated June 20, 2024, to accompany the consolidated financial statements for the year ended March 31, 2024

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 ("WestBond" or the "company"), are a paper manufacturer and converter that manufactures disposable paper products for 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.

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 have expanded 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 and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct 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 the western USA.

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 and the USA. Long-term care products are also 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.

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 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 started up a wet-wipe production line in August 2020 and commenced sales of disinfectant wipes to government distribution centres, nursing home suppliers and janitorial supply distributors.

Personal Hygiene Products – We 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 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. In 2015, 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.

Wipe 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, primarily for use in nursing homes. All dry wipes are made with high quality air-laid paper which results in soft absorbent wipes which are used as disposable wash cloths and perineal wipes.

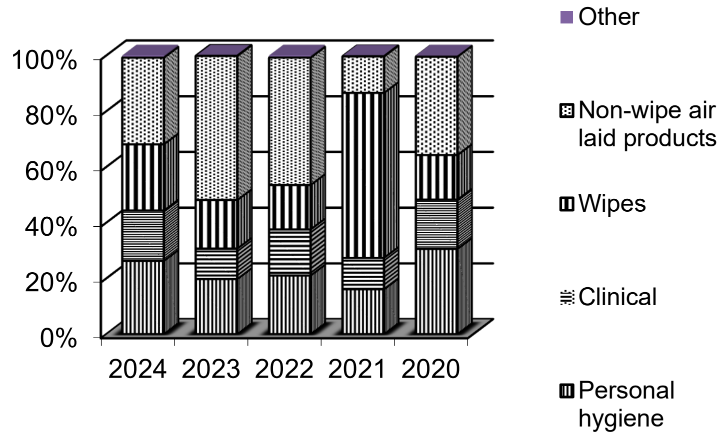
Products are available in 1/4-fold, 1/8-fold, and roll formats in a variety of widths and perforation lengths. The long-term care market is growing and we continue to develop new products for major Canadian and US distributors.

Our disinfectant wet-wipes, marketed under the brand name “ViroBan Plus” are also included in this category.

Non-Wipe Air-laid Products– This product line includes bulk air-laid parent rolls sold to other paper converters and our own line of high-quality air-laid napkins for use in restaurants. 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. We are now supplying air laid napkins to a major, high profile national restaurant chain with a customized product. 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.

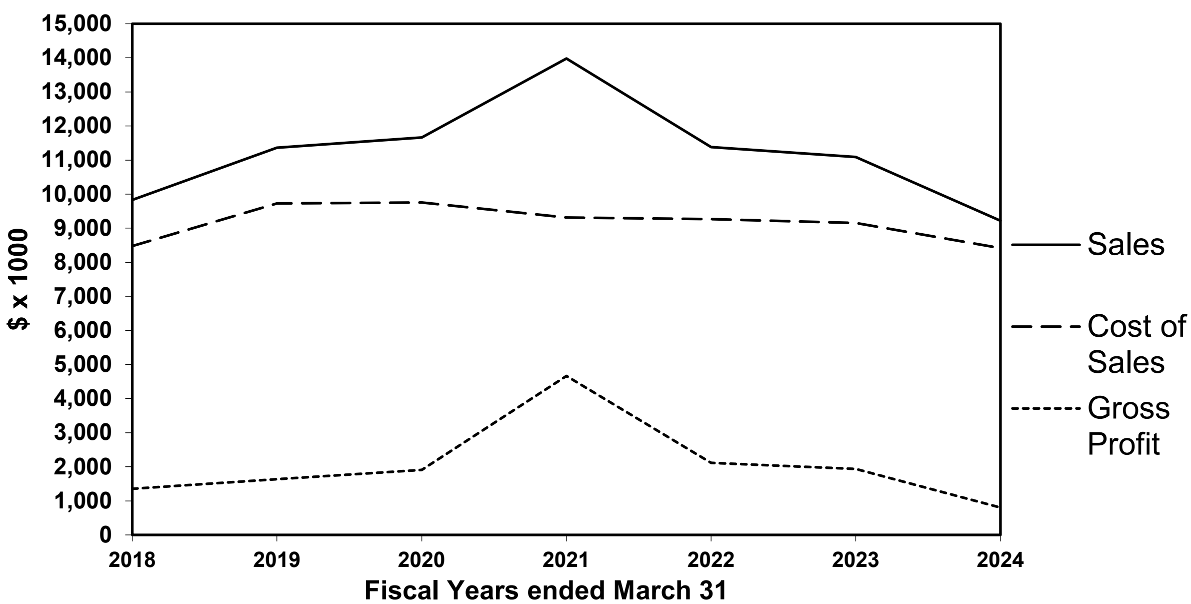
The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2020 through 2024.



Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2024 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 loss of $210,683 during the year ended March 31, 2024, compared to a profit of $574,550 for the year ended March 31, 2023. Our gross profit margin realized during 2024 was 8.7% compared to 17.4% for 2023. Please note the change in gross margin calculation due to the reallocation of Shipping costs to the cost of sales starting April 2023. Please see our detailed disclosure in our Financial Statement notes. Our gross profit margins were lower in 2024 than in 2023 due to higher cost of sales in comparison to the sales revenue.



Selected Annual Information

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

Operating Results	Years ended March 31					
	2024		2023		2022	
	$	% of sales	$	% of sales	$	% of sales
Sales	9,219,948	100.0	11,089,793	100.0	11,378,650	100.0
Cost of sales	8,417,184	91.3	9,151,176	82.5	9,266,706	74.7
Gross profit	802,764	8.7	1,938,617	17.5	2,111,944	25.3
Selling and distribution expenses	155,042	1.7	147,205	1.3	155,508	1.3
General and administrative expenses	796,062	8.6	859,977	7.8	855,885	7.5
Other expenses and (income)	152,964	1.7	95,337	0.9	141,452	1.3
Profit (loss) before tax	(301,304)	(3.3)	836,098	8.0	959,099	8.4
Income tax expense	(90,621)	(1.0)	261,548	2.2	265,879	2.3
Profit and comprehensive income	(210,683)	(2.3)	574,550	5.8	693,220	6.1
Earnings per share, basic	(0.006)		0.016		0.019	
Earnings per share, fully diluted	(0.006)		0.016		0.019	
Cash dividends paid per common share	0.00		0.015		0.025	

Financial Position	March 31		
	2024	2023	2022
	$	$	$
Non-Current Assets	9,209,702	10,060,501	10,725,450
Current Assets	3,484,469	3,360,205	3,537,346
Total assets	12,694,171	13,420,706	14,262,796
Non-Current Liabilities	3,394,774	3,835,984	4,525,979
Current liabilities	1,678,744	1,753,386	1,945,644
Shareholders' equity	7,620,653	7,831,336	7,791,173

Sales

Sales were $9,219,948 for the year ended March 31, 2024, a 16.9% decrease over the year ended March 31, 2023. The table below summarizes the sales of the company for the last five fiscal years.

	2024	2023	2022	2021	2020
	$	$	$	$	$
Personal hygiene products	2,424,043	2,193,970	2,394,594	2,250,890	3,570,404
Clinical products	1,663,562	1,208,190	1,880,769	1,574,748	2,061,075
Wipe products	2,193,446	1,933,302	1,815,722	8,276,885	1,868,135
Non-clinical air-laid products	2,867,163	5,734,615	5,201,305	1,827,960	4,118,076
Other products	71,734	19,716	86,260	49,325	50,202
Total sales	9,219,948	11,089,793	11,378,650	13,979,808	11,667,892
Change over previous year	-16.9%	-2.5%	-18.6%	19.8%	2.7%

Sales were exceptional for the year ended March 31, 2021 due to a government supply contract for wet-wipe products that was not renewed. 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. Compared to the previous year, sales of personal hygiene, clinical, wipe and other products have increased while sales of non-clinical airlaid products have decreased. The decrease in sales of non-clinical airlaid products (primarily airlaid parent rolls) 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. With improved staffing, we have been able to reduce our backlog of unshipped orders that persisted for several quarters in 2023.

In 2019, prior to covid-19, we committed to a disinfectant wipe production line because of the then existing market demands for these products. Most of our health care, janitorial and industrial customers carry these products. Covid-19 accelerated the demand for our ViroBan Plus disinfectant wipes which were introduced in late August 2020. We decided to support a government stockpiling contract for these wipes from August 2020 to January 2021. This contract was completed in January 2021 and sales continue at lower volumes with our regular distributors. Since then, demand for air laid food service products and personal wipes has increased significantly.

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.

Cost of Sales

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

	2024		2023		2022		2021		2020	
	$	% sales	$	% sales	$	% sales	$	% sales	$	% sales
Materials	4,163,527	45.2	4,829,167	43.5	5,141,268	45.2	5,287,611	37.9	5,882,856	50.4
Production labour	970,608	10.5	994,806	9.0	1,027,892	9.0	1,102,209	7.9	962,145	8.2
Factory overhead labour	501,762	5.4	483,711	4.4	472,864	4.2	589,335	4.2	463,599	4.0
Variable overhead	427,290	4.6	610,035	5.5	610,368	5.4	490,470	3.5	508,374	4.4
Fixed overhead	321,932	3.5	295,365	2.7	253,418	2.2	234,051	1.7	216,610	1.9
Shipping	790,746	8.6	806,944	7.3	770,955	6.8	663,992	4.8	789,249	6.8
Depreciation of										
- plant equipment	982,439	10.7	872,975	7.9	731,768	6.4	689,841	4.9	673,109	5.7
- right-of-use assets	258,880	2.8	258,173	2.3	258,173	2.3	258,174	1.8	258,881	2.2
Total cost of sales	8,417,184	91.3	9,151,176	82.6	9,266,706	81.5	9,315,683	66.7	9,754,823	83.6

*Cost of Sales for prior years updated to achieve a similar presentation to current year in terms of shipping cost. Refer to paragraph under "Accounting policies" later in this MD&A.

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 high as a percentage of sales due to higher costs of raw materials compared to the previous year.

Unfavourable paper yields, the amount of product that a certain weight of paper produces, increased materials costs by a factor of 0.3% of sales in 2024, 3.2% of sales in 2023, 2.9% of sales in 2022, 0.6% in 2021, and 1.5% in 2020. During part of the 2023, 2022 and 2020 fiscal years, we had difficulty purchasing paper in optimum grades and sizes, which meant we had to substitute more costly grades than standard, resulting in higher paper usage which caused higher than normal waste.

Paper prices have increased in all fiscal years since 2020. 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 10.5% in 2024, compared to 9% during 2023 and 2022, 7.9% during 2021, and 8.2% during 2020. Production labour cost as a percentage of sales increased in 2024, mainly because of overtime payments due to increased production in all product categories except airlaid parent rolls, offset by periodic shut-down of airlaid machine due to lack in demand for airlaid parent rolls. Production labour remained the same as a proportion of sales in 2023 due to a lower labour cost because of a shortage of workers, offset by wage rate increases for most production employees and overtime pay made necessary by the labour shortage. The decrease from 2020 to 2021 is from improved operating efficiencies and, higher margins in 2021 and 2022 from our wet wipe product sales. 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. We increased our wage rates in 2023 in order to attract more employees.

Total factory overhead labour increased in 2024 mainly because of payments to a consultant for overseeing the production plant and assisting with sales and marketing. Increases in warehouse wages were offset by decreases in factory supervision and training wages and benefits. The increase in 2023 was due to the hiring of a production supervisor, a maintenance staff reallocation to full-time supervision, training of new staff and a general increase in wage rates. Factory overhead labour increased in 2021 as a percentage of sales due to higher wage rates and decreased in 2020 due to increased sales volume. Variable overhead normally fluctuates slightly from one period to the next. Variable overhead incurred in 2024 is lower than in the previous year mainly due to decreases in maintenance parts and contractor costs, electricity and gas costs, and factory overhead supplies. Costs in 2023, 2022, and 2020 are higher than previous years due to increased electricity and gas to operate the air-laid paper machine. Gas and electricity costs decreased in 2024 and 2021 due to lower air-laid production. Variable overhead also increased in 2023, 2022, 2021 and 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 2024 includes $24,600 in higher rent, and $1,967 increase in insurance premiums. Fixed Overhead in 2023 includes $42,396 in higher rent, while insurance premiums remained the same. Fixed overhead in 2022 includes $14,056 in higher insurance premiums offset by $5,311 in lower rent. Fixed overhead in 2021 includes $17,035 in higher insurance premiums. Fixed overhead in 2020 includes $11,189 in higher insurance premiums. Increases in depreciation expense are the result of bringing new equipment into use, disposal of equipment not in use, and the revision of the estimates of useful life of some equipment.

Selling and Distribution Expenses

Selling and distribution expenses were higher in 2024 than in 2023 because of a general increase in wages, and benefits, commissions and other costs.

General and Administrative Expenses

General and administrative expenses decreased in 2024 due to lower administration and office costs. It decreased in 2023 over 2022 due to a staff member being on maternity leave, staff vacations taken, offset by higher rates of pay.

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. In 2021 the customer successfully refinanced its operations and paid 50% of the receivable. The remaining 50% was being paid in monthly instalments. The customer paid their outstanding balance in February 2023, with a resulting bad debt of $1,727. 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, 2024, trade and other receivables include $285,716 that is more than 30 days past due, not including the receivables written off. We have provided for an expected credit loss (ECL) adjustment of $30,000 as at March 31, 2024. The ECL adjustment created on March 31, 2023 was reversed in 2024 because we received payment for the doubtful amount. A majority of the outstanding balance is from a long-time customer who accounts for more than 10% of our annual sales. We believe that we will eventually receive full payment of these amounts.

During the year ended March 31, 2024 professional fees include $17,592 paid to DuMoulin Black LLP, a law firm with which J. Douglas Seppala, one of our directors, is associated. 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, 2024, the company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $412,766 to key management personnel, comprising the chief executive and chief financial officer and the directors of the company. $406,460 of the compensation is included in general and administrative salaries and employee benefits, nil is included in administration and office and $6,306 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, prepaid expenses and trade and other payables are denominated in US dollars. While the amounts of exposure change on a daily basis, in 2024 we generally had more US dollar financial liabilities than US dollar assets. Over the past year, our exposure ranged from US$149,218 net assets to $330,424 net liabilities and averaged US$38,006 net liabilities (calculated on a monthly basis) and, at March 31, 2024, net assets were US$149,218. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.35 to Cdn$1.25) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn$1,492 on an exposure of US$149,218. The US dollar financial assets generally result from sales to US customers and prepayments to international suppliers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

Interest on our revolving 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 fixed the rate of interest on the term bank loan at 3.88% until November 22, 2022. At the expiration of the swap agreement, the balance of $535,700 was converted into a term loan payable monthly until August 2023 at a fixed interest rate of 6.159%. The final payment of the loan was made on August 31, 2023. There is no outstanding balance as at March 31, 2024.

Interest expense on the lease liabilities recognized on adoption of *IFRS-16_Leases,* calculated at 4.45% per annum, was $85,460 during 2024 and $96,596 during 2023.

Liquidity and Capital Resources

Our operating cash flows were $642,891 during the year ended March 31, 2024, an average of $53,574 per month, compared to $185,276 per month during 2023, before accounting for fluctuations in non-cash working capital. At March 31, 2024 we had cash of $111,001 and working capital of $1,805,725 compared to cash of $73,471 and working capital of $1,606,819 at March 31, 2023. The increase is due to sales and cost of sales activity, equipment purchases, and term loan interest and principal payments, offset by operating cash flows.

We have temporarily suspended dividend payments to ensure we can complete important, planned capital projects that will increase our product-line and subsequently, our sales. We intend to spend around $300,000 on equipment over the next year, which we will finance from operating cash flows, supplemented by our revolving bank loan facility.

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 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 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 $750,000 are not included in the calculation. Substantially all of our assets are pledged as collateral. The amount currently available based on the March 31, 2024 Consolidated Statement of Financial Position is $1,366,144. $670,000 was outstanding under this facility at March 31, 2024.

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 had a term loan which was used for the purchase of our binder bonded air-laid paper making machine. Repayment of the loan and interest was in monthly instalments of $61,500 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 were pledged as collateral. This loan is now fully repaid.

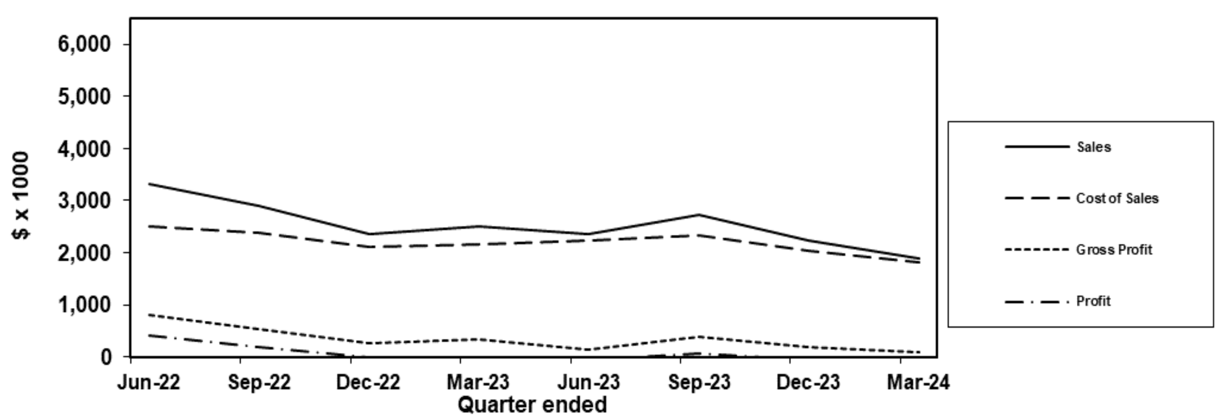
We have covenanted with the bank to maintain our consolidated ratio of current assets to current liabilities at 1.20:1 or higher, our consolidated ratio of debt (including deferred tax liability) to shareholders' equity at 2.00 or lower and our consolidated ratio of net income before extraordinary and 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, 2024 and do not anticipate difficulty maintaining this compliance during the forthcoming year. If we are not compliant with these covenants, and are unable to obtain a waiver from the bank, the loan will become payable on demand.

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

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** Mar 31 2024	Dec 31 2023	Sep 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022	Sep 30 2022	Jun 30 2022
Sales	1,896	2,239	2,718	2,367	2,510	2,360	2,898	3,321
Cost of sales	1,817	2,041	2,322	2,237	2,166	2,099	2,372	2,514
Gross profit	79	198	396	130	344	261	526	807
Selling and distribution expenses	30	35	46	44	39	40	35	34
General and administrative expenses	242	204	201	149	269	193	202	196
Operating profit (loss)	(193)	(41)	149	(63)	36	27	289	577
Other expenses (income)	48	29	44	31	2	45	37	11
Profit (loss) before tax	(241)	(70)	103	(94)	34	(18)	252	566
Income tax expense (recovery)	(76)	(18)	28	(25)	40	1	69	152
Profit (net loss)	(165)	(52)	75	(69)	(6)	(19)	183	414
Earnings (loss) per share, basic and fully diluted - Cdn$	(0.005)	(0.001)	0.002	(0.002)	-	(0.001)	0.005	0.012
Dividends paid per share - Cdn$	-	-	-	-	-	-	0.005	0.005
Sales - % change over previous quarter	-15.3	-17,6	14.8	-5.7	6.4	-18.6	-12.7	16.8
Costs, expenses and net income - % of Sales								
Cost of sales	95.8	91.2	85.4	94.5	86.3	89.0	81.8	75.7
Selling and distribution expenses	1.6	1.6	1.7	1.9	1.5	1.7	1.2	1.0
General and administrative expenses	12.8	9.1	7.4	6.3	10.7	8.2	7.0	5.9
Other expenses (income)	2.5	1.3	1.7	1.3	0.1	1.9	1.3	0.3
Income tax expense	(4.0)	(0.8)	1.0	(1.1)	1.6	0.0	2.4	4.6
Profit	(8.7)	(2.3)	2.8	(2.9)	(0.2)	(0.8)	6.3	12.5



*Cost of Sales for prior years updated to achieve a similar presentation to current year in terms of shipping cost. Refer to paragraph under “Accounting policies” later in this MD&A.

Sales for the three months ended March 31, 2024 were 24.5% lower than for the same period last year. Compared to the previous quarter, our sales were lower because of lower airlaid parent roll demand and the inability to ship other products due to challenges with shipping staff. The cost of sales has been 4.6%

higher when compared to the level of sales over the previous quarter. Materials, production labour, shipping and variable overhead costs were lower, offset by an increase in factory overhead labour. Selling and distribution costs in quarter four is lower than in quarter three. The increase in general and administrative expense is mainly because of vacations taken in quarter three, offset by a decrease in corporate promotion and professional fees. Compared to the previous quarter, quarter four has a foreign exchange loss, an increase in interest expense on revolving bank loan account and a reduction in interest on lease liabilities.

Share Capital and Outstanding share data

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

	June 20, 2024
Authorized common shares without par value	Unlimited
Issued common shares	35,625,800
Shares issuable on exercise of outstanding stock options	940,000
Shares available for future stock option grants	2,622,580

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

Related Party Transactions

During the year ended March 31, 2024:

The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $412,766 (2023 – $418,318) to directors and officers of the company; and

The company incurred $17,592 (2023 – $19,071) of legal fees in the normal course of operations with a firm with which a director of the company was associated.

Accounting policies

The company's material accounting policies are disclosed in Note 3 of the company's consolidated financial statements.

Starting April 1, 2023, in order to achieve better categorization and measurement of cost of sales, the company presents "Shipping costs" as part of Cost of sales in the Statement of (loss) profit and comprehensive (loss) profit. For equitable comparison in these consolidated financial statements, all related amounts reported from previous periods were reclassified to reflect a similar presentation. The adjusted presentation (involving the presentation of shipping cost to the amount of $807 thousand) had no impact on Operating profit or Net Profit and Comprehensive Profit for the comparative year and had no impact on the statement of financial position.

Financial Instruments and risk management

The company has various financial instruments including trade and other receivables, cash and cash equivalents, revolving bank loans, and trade and other payables. Cash and cash equivalents are at fair value. Trade and other receivables and financial liabilities are carried at amortized cost.

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. During the year ended March 31, 2024 the company recognized impairment loss of nil (2023 – loss of $514) on trade receivables and provided for an expected credit loss (ECL) adjustment of $30,000 as at March 31, 2024 (2023 - $50,000). At March 31, 2024 $94,392 (2023 – $87,234) of trade and other receivables were between 31 and 60 days past due and $191,324 (2023 – $150,649) were more than 60 days past due, not including the receivables written off. At March 31, 2024 the amount of $410,028 was due from two customers collectively (2023 – $421,495, one customer) who represented more than 10% of trade and other receivables. These two customers represented 36% of the trade and other receivables (2023 – 37%). These customers are long standing customers who consistently make regular payments.

The company's revolving bank loan is at interest rates that fluctuate with market interest rates.

Portions of the company's cash and cash equivalents, trade and other receivables, prepaid expenses 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, in this reporting period, the company has more US dollar financial liabilities than US dollar assets. Over the past year, the exposure ranged from US$149,218 net assets to $330,424 net liabilities and averaged US$38,006 net liabilities (calculated on a monthly basis) and, at March 31, 2024, net assets were US$149,218. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.35 to Cdn$1.25) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn$1,492 on an exposure of US$149,218. During the year ended March 31, 2024 the company realized foreign exchange loss of $5,750 (2023 –gain of $5,765). The US dollar financial assets generally result from sales to US customers and prepayments to international suppliers. The US dollar financial liabilities generally result from purchases of raw materials from US and international

Off-balance sheet arrangements

As at March 31, 2024 and the date of this MD&A, the company did not have any off-balance sheet arrangements.

Controls and Procedures

In connection with Exemption Orders by each of the securities commissions across Canada, the CEO and CFO of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim consolidated financial statements and the audited annual consolidated financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Management's Responsibility for the Financial Statements

The Audit Committee is responsible for reviewing the contents of this document along with the consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the year ended March 31, 2024.

Risk Factors

In addition to factors discussed elsewhere in this MD&A, the following risk factors, which are not exhaustive, could materially affect the company's business, financial condition or results of operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. These risks include but are not limited to the following:

The market for our common shares is subject to volume and price volatility which could affect a shareholder's ability to buy or sell our shares.

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small-capitalization companies such as the Company, have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values, or prospects of such companies. For these reasons, our common shares can also be subject to volatility resulting from purely market forces over which we will have no control.

Information Systems Security Threats

As a result, cyber security and continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attacks, damage or unauthorized access remain a priority. As the threat landscape is ever-changing, the company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Climate change

Regulations and taxes developed to regulate the transition to a low-carbon economy and energy efficiency may result in increased operation costs including environmental monitoring, increased reporting and other costs to comply with such regulations. Westbond is committed to being a responsible company in everything it does.

Epidemic diseases such as the recent COVID-19

The Company's business could be impacted by the effects of epidemic diseases such as COVID-19 which had a significant impact on businesses and people through the restrictions put in place by governments of most countries regarding travel, business operations, social distancing and quarantine orders. Epidemic diseases could impact the Company's product demand, as well as cause supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also positively or negatively impact the company's business and financial condition.

Geopolitical risks

Uncertainties resulting from war conflicts such as the Russia-Ukraine and Israel-Palestine conflicts. Although the Company does not have operations in those countries, the global impact of these wars in commodity prices, foreign currency exchange rates, supply chain challenges and increased prices may have adverse impacts on our costs of doing business

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, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2024 and 2023;
- the consolidated statements of (loss) profit and comprehensive (loss) profit for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 26, 2024

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

	Notes	March 31 2024 $	March 31 2023 $
ASSETS			
Non-Current Assets			
Plant and equipment	5	7,598,240	8,192,735
Right-of use-assets	6	1,548,220	1,825,989
Deferred tax asset	9	63,242	41,777
		9,209,702	10,060,501
Current Assets			
Inventory	7	2,138,782	1,809,934
Trade and other receivables		1,095,619	1,082,042
Income tax recoverable		42,903	-
Prepaid expenses		96,164	394,758
Cash and cash equivalents		111,001	73,471
		3,484,469	3,360,205
Total Assets		12,694,171	13,420,706
EQUITY AND LIABILITIES			
Equity			
Common shares issued and outstanding	8	4,206,910	4,206,910
Stock options	8	65,800	81,200
Contributed surplus		326,989	311,589
Retained earnings		3,020,954	3,231,637
Equity attributable to common shareholders		7,620,653	7,831,336
Liabilities			
Non-Current Liabilities			
Lease liability	12	1,512,412	1,794,257
Deferred tax liability	9	1,882,362	2,041,727
		3,394,774	3,835,984
Current Liabilities			
Revolving bank loans	10	670,000	12,351
Term bank loans	11	-	297,783
Lease liability	12	281,845	264,215
Income tax payable		-	322,449
Trade and other payables	13	726,899	856,588
		1,678,744	1,753,386
Total Liabilities		5,073,518	5,589,370
Total Equity and Liabilities		12,694,171	13,420,706

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 (Loss) Profit and Comprehensive (Loss) Profit
(Canadian Dollars)

		Years ended March 31	
		2024	2023
	Notes	$	$
Sales	14	9,219,948	11,089,793
Cost of sales	15	8,417,184	9,151,176
Gross Profit		802,764	1,938,617
Selling and distribution expenses	16	155,042	147,205
General and administrative expenses	17	796,062	859,977
Operating (Loss) Profit		(148,340)	931,435
Foreign exchange (gain) loss		5,750	(5,765)
Interest expense on bank loans		61,751	45,914
Interest expense on lease liability		85,463	96,596
Loss (gain) on disposal of equipment		-	(37,494)
Unrealized gain on interest rate swap		-	(3,914)
(Loss) Profit Before Tax		(301,304)	836,098
Income tax (recovery) expense	9	(90,621)	261,548
(Loss) Profit and Comprehensive (Loss) Profit for the year		(210,683)	574,550
Weighted average shares outstanding		35,625,800	35,625,800
(Loss) Earnings per share, basic		(0.006)	0.016
Dilutive effect of stock options outstanding		-	-
Fully diluted weighted average shares outstanding		35,625,800	35,625,800
(Loss) Earnings per share, fully diluted		(0.006)	0.016

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, 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 year	-	-	-	574,550	574,550
Balance as at March 31, 2023	4,206,910	81,200	311,589	3,231,637	7,831,336
Forfeiture of stock options		(15,400)	15,400		
(Loss) Profit for the year	-	-	-	(210,683)	(210,683)
Balance as at March 31, 2024	4,206,910	65,800	326,989	3,020,954	7,620,653

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 2024 $	2023 $
Operating Activities			
(Loss) Profit		(210,683)	574,550
Adjustments to reconcile (loss) profit to cash flows from operating activities			
- depreciation of plant and office equipment		994,773	880,865
- depreciation of right-of-use assets		277,769	277,010
- expected credit loss on trades receivable		(20,000)	50,000
- loss (gain) on disposal of equipment		-	(37,494)
- unrealized gain on interest rate swap		-	(3,914)
- interest expense on bank loans		61,751	45,914
- interest expense on lease liability		85,463	96,596
- income tax expense (recovery)		(90,621)	261,548
- income tax recovered (paid)		(455,561)	78,235
Cash flows from operating activities before changes in non-cash working capital		642,891	2,223,310
(Increase) decrease in			
- inventory		(328,848)	112,714
- trade and other receivables		6,423	(10,865)
- prepaid expenses		298,593	(323,774)
(Decrease) in			
- trade and other payables		(126,245)	(68,105)
Net Cash Flows from Operating Activities		492,814	1,933,280
Investing Activities			
Purchase of plant and equipment	18	(410,498)	(432,339)
Financing Activities			
Increase (decrease) in revolving bank loans		657,649	(74,186)
Repayment of term bank loans		(297,783)	(714,109)
Interest paid on bank loans		(61,751)	(45,914)
Interest portion of lease payments		(78,686)	(88,821)
Principal portion of lease payments		(264,215)	(238,123)
Dividends paid		-	(534,387)
Net Cash Flows used in Financing Activities		(44,786)	(1,695,540)
Net Increase (Decrease) in Cash and Cash Equivalents		37,530	(194,599)
Cash and Cash Equivalents at the Beginning of the Year		73,471	268,070
Cash and Cash Equivalents at the End of the Year		111,001	73,471

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, 2024 were authorized for issue by resolution of the directors on June 20, 2024.

2. BASIS OF PREPARATION

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

3. MATERIAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

New Accounting Pronouncements

<u>Amendment to IAS 12</u>

This amendment clarifies how companies account for deferred taxes on transactions such as leases and decommissioning obligations with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

<u>Amendment to IAS 1</u>

This amendment made to IAS 1 Presentation of Financial Statements in 2023 requires entities to disclose their material accounting policy information, instead of significant accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Accounting Policies

The material accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

<u>Classification of shipping cost in Cost of Sales – comparative figures</u>

Starting April 1, 2023, in order to achieve better categorization and measurement of cost of sales, the company presents "Shipping costs" as part of Cost of sales in the Statement of (loss) profit and comprehensive (loss) profit. For equitable comparison in these consolidated financial statements, all related amounts reported from previous periods were reclassified to reflect a similar presentation. The adjusted presentation (involving 2023 shipping cost to the amount of $806,944) had no impact on Operating Profit or Net Profit and Comprehensive Profit for the comparative year and had no impact on the statement of financial position.

Consolidation

These consolidated financial statements consolidate the accounts of WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc. All intercompany transactions,

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

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 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

“Right-of-use” assets, representing the right to use an underlying leased asset, and a lease liability, representing the obligation to make lease payments, are recognized at the inception of a lease. 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

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

the lease. Other operating payments associated with leased premises are recorded in the period in which the expenses occur. The company elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value.

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 and right-of-use assets. Costs are assigned to inventory on a first-in, first-out basis. Overhead related to raw materials manufactured by the company is allocated to the cost of those raw materials based on the practical capacity of the manufacturing plant. The allocation of the remaining overhead is based on the proportionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

Financial Instruments

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

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

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

(i) Financial Assets at Amortized Cost: Financial assets are initially measured at fair value and classified as subsequently measured at amortized cost or fair value on the basis of the business model for managing the financial asset and the contractual cash flow characteristics of the financial assets. A financial asset is subsequently measured at amortized cost only if it is held in a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The company’s trade and other receivables are in this category and are subsequently measured at amortized cost using the effective interest method less a provision for impairment. Gains or losses on financial assets in this category are recognized in profit or loss when the financial asset is derecognized, impaired or reclassified.

(ii) Financial Assets at Fair Value: Financial assets not meeting the criteria for subsequent measurement at amortized cost are initially and subsequently measured at fair value. The company’s cash and cash equivalents are in this category. Gains or losses arising from changes 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. The entity does not have any financial assets that are designated as being recorded through other comprehensive income (FVOCI).

(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

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

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.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of (loss) Profit and comprehensive (loss) 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.

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

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

Revenue

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 year. 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.

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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, and trade and other payables. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Trade and other receivables are carried at amortized cost.

4. FINANCIAL INSTRUMENTS (continued)

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, 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.

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. During the year ended March 31, 2024 the company recognized impairment of nil (2023 – loss of $514) on trade receivables and provided for an expected credit loss (ECL) adjustment of $30,000 (2023 - $50,000). At March 31, 2024 $94,392 (2023 – $87,234) of trade and other receivables were between 31 and 60 days past due and $191,324 (2023 – $150,649) were more than 60 days past due. At March 31, 2024 the amount of $410,028 was due from two customers (2023 – $421,495, one customer) who represented more than 10% of trade and other receivables. These two customers represented 36% of the trade and other receivables (2023 – 37%). One customer is a long-standing customer who consistently makes regular payments; and the other customer places large orders and has paid before their invoices are 60 days overdue.

The company's revolving bank loan is at interest rates that fluctuate with market interest rates. The term loan credit facility which was used for the purchase of binder bonded air laid paper making machine, was repaid on August 31, 2023. This loan is fully repaid.

The company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financial activities. The company had cash and cash equivalents at March 31 2024 in the amount of $111,001 (2023 -$73,471) in order to meet short-term business requirements. Working capital as at March 31, 2024 was positive $1,805,725 (2023 - $1,606,819).

The projected cash flows for the 12 months following the balance sheet date are sufficient to cover operating expenses and other cash outflow obligations as they fall due.

Portions of the company's cash and cash equivalents, trade and other receivables, prepaid expenses 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, in this reporting period, the company has more US dollar financial liabilities than US dollar assets. Over the past year, the exposure ranged from US$149,218 net assets to $330,424 net liabilities and averaged US$38,006 net liabilities (calculated on a monthly basis) and, at March 31, 2024, net assets were US$149,218. Each change of 1% (e.g., a change from US$1.00 = Cdn$1.35 to Cdn$1.25) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn$1,492 on an exposure of US$149,218. During the year ended March 31, 2024 the company realized foreign exchange loss of $5,750 (2023 –gain of $5,765).

(Canadian Dollars)

4. FINANCIAL INSTRUMENTS (continued)

The US dollar financial assets generally result from sales to US customers and prepayments to international suppliers. The US dollar financial liabilities generally result from purchases of raw materials from US and international suppliers.

5. PLANT AND EQUIPMENT

	Factory equipment $	Leasehold improvements $	Office equipment $	Total $
At March 31, 2022				
Cost	15,513,148	229,449	143,011	15,885,608
Accumulated depreciation	(7,119,686)	(63,970)	(108,405)	(7,292,061)
Net book value	8,393,462	165,479	34,606	8,593,547
Additions	484,409	-	19,875	504,284
Disposals - cost	(72,490)	(1,669)	-	(74,159)
Disposals – accumulated depreciation	72,490	1,669	-	74,159
Depreciation	(858,136)	(14,839)	(7,890)	(880,865)
At March 31, 2023				
Cost	15,925,067	227,780	162,886	16,315,733
Accumulated depreciation	(7,905,331)	(77,140)	(116,295)	(8,098,766)
Loss due to Disposals	(24,232)			(24,232)
Net book value	7,995,504	150,640	46,591	8,192,735
Additions	357,134	37,094	12,091	406,319
Disposals - cost	-	-	-	-
Disposals – accumulated depreciation	-	-	-	-
Depreciation	(967,740)	(14,699)	(12,334)	(994,773)
At March 31, 2024				
Cost	16,322,721	266,542	170,306	16,759,569
Accumulated depreciation	(8,939,193)	(93,508)	(128,628)	(9,161,329)
Net book value	7,383,528	173,034	41,678	7,598,240

Included in factory equipment at March 31, 2024 is equipment costing $578,951 (2023 - $392,516) 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).

(Canadian Dollars)

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.

	2024	2023
	$	$
Cost	2,934,789	2,934,789
Accumulated depreciation	1,386,569	1,108,800
Net book value	1,548,220	1,825,989

7. INVENTORY

	2024	2023
	$	$
Raw materials	1,831,290	1,652,116
Finished goods	307,492	157,818
Total inventory	2,138,782	1,809,934

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, 2023 and 2024	35,625,800	4,206,910

Stock Option Plan

The company has a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 10% of the outstanding common shares of the company at the time of the grant, less any stock options previously granted and still outstanding. Options granted under the plan expire after a maximum of 10 years. The option exercise price is generally set as the market price at the time of granting; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange.

During the year ended March 31, 2021 stock options were granted under the stock option plan to purchase a total of 1,520,000 common shares at $0.55 per share until October 5, 2025. The options were fully vested on granting. The fair value of $106,400 ascribed to the stock options was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.35%, a dividend yield of 14.55%, an expected option life of 5 years and expected volatility of 54%. The expected volatility was estimated using 5 years of historical data. Options to purchase 110,000 shares were exercised during the year ended March 31, 2021, no activity was recorded in the year ended March 31, 2022, options to purchase 250,000 shares expired without being exercised during the year-ended March 31, 2023, and options to purchase 220,000 shares expired without being exercised during the year ended March 31, 2024. The options on the remaining 940,000 shares were outstanding at March 31, 2024 with a weighted average remaining life of 1.5 years.

(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 2024	March 31 2023
	$	$
Operating losses carried forward	63,242	41,777
Allowable capital losses carried forward	31,036	31,036
	94,278	72,813
Valuation allowance	(31,036)	(31,036)
Net deferred tax asset	63,242	41,777
Plant and equipment	1,948,791	2,104,497
Right-of-use assets	418,020	493,017
Lease liabilities	(484,449)	(555,787)
Net deferred tax liability	1,882,362	2,041,727

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.

	2024	2023
Combined statutory rate	27.00%	27.00%
	$	$
Income tax expense based on the statutory rates	(81,351)	225,747
Tax effect of expenses that are not deductible for income tax purposes	(9,270)	36,330
(Decrease) increase in valuation allowance	-	(528)
Income tax expense (recovery) for the year	(90,621)	261,549
Current portion	90,209	408,470
Deferred portion	(180,830)	(146,921)

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 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. $670,000 was outstanding under this facility at March 31, 2024 (2023 – 12,351).

The company has covenanted with the bank to maintain various financial ratios and was in compliance with these covenants at March 31, 2024.

11. TERM BANK LOANS

The company had a term bank loan facility used for the purchase of certain production equipment. The company had entered into an interest rate swap with an effective date of December 22, 2017 and a maturity date of November 22, 2022. At the expiration of the swap agreement, the balance of $535,700 was converted into a term loan payable monthly until August 2023 at a fixed interest rate of 6.159%. The final payment of the loan was made on August 31, 2023. There is no outstanding balance as at March 31, 2024.

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. The company has covenanted with the bank to maintain various financial ratios and was in compliance with these covenants at March 31, 2024.

(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
	$	$	$
2025	281,845	74,205	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 $237,384 per year, are payable in addition to the minimum lease payments.

During the year ended March 31, 2024 the company expensed $220,824 (2023 – $194,426) in additional lease payments for operating costs and property taxes on its lease for premises and $3,892 (2023 – $2,262) in lease payments for which the underlying assets are of low value.

13. TRADE AND OTHER PAYABLES

	2024	2023
	$	$
Payable to suppliers for trade purchases	344,970	470,505
Payable to employees for wages and expenses	187,217	231,660
Payable to governments for withholding and sales taxes	43,439	81,668
Accrued liabilities	151,273	72,755
	726,899	856,588

14. SALES REVENUE

	2024	2023
	$	$
Personal hygiene products	2,424,043	2,193,970
Clinical products	1,663,562	1,208,190
Wipes	2,193,446	1,933,302
Non-wipe air laid products	2,867,163	5,734,615
Other products	71,734	19,716
	9,219,948	11,089,793

(Canadian Dollars)

15. COST OF SALES

	2024	2023
	$	$
Materials	4,163,527	4,829,167
Production labour	970,608	994,806
Factory overhead labour	501,762	483,711
Variable overhead	427,290	610,035
Fixed overhead	321,932	295,365
Shipping	790,746	806,944
Depreciation of plant equipment	982,439	872,975
Depreciation of right-of-use assets	258,880	258,173
	8,417,184	9,151,176

16. SELLING AND DISTRIBUTION EXPENSES

	2024	2023
	$	$
Wages, commissions and other employee benefits	134,158	133,157
Other	20,884	14,048
	155,042	147,205

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2024	2023
	$	$
Administration and office	133,002	142,382
Corporate promotion	8,130	8,839
Depreciation of right-of-use assets	18,889	18,837
Loss (gain) on change in ECL on trade receivables	(20,000)	50,514
Professional fees	88,123	89,322
Salaries and other employee benefits	567,918	550,083
	796,062	859,977

18. SUPPLEMENTARY CASH FLOW INFORMATION

During the year ended March 31, 2024 trade and other payables related to the purchase of plant and equipment decreased by $2,053 (2023 – decreased by $1,620).

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, 2024 the company had domestic sales in Canada of $7,627,158 (2023 – $6,264,180) and export sales to the United States and its territories of $1,592,790 (2023 – $4,825,613). During the year ended March 31, 2024 the company had sales to one customer of $1,922,144 (2023 – two customers, $5,493,146), who represented more than 10% of sales.

20. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2024:

- The company incurred total compensation, comprising short-term employee benefits (including wages, salaries, bonuses, stock options, taxes and perquisites), of $412,766 (2023 – $418,318) to directors and officers of the company; and
- The company incurred $17,592 (2023 – $19,071) of legal fees in the normal course of operations with a firm with which a director of the company was associated.

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, 2024 and 2023.