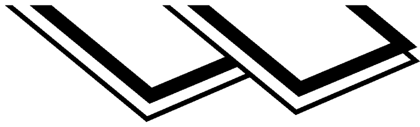

WESTBOND ENTERPRISES CORPORATION

2011 Annual Report

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WestBond Enterprises Corporation

Management Discussion and Analysis

dated July 18, 2011, to accompany the consolidated financial statements for the year ended March 31, 2011

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

Description of Our Business

We, WestBond Enterprises Corporation ("WestBond" or the "Company"), are a paper converter that supplies disposable paper products to many market segments. We initially grew to become one of Canada's leading manufacturers of medical disposables. In 2002 we expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

Our product lines include clinical products such as examination table paper, dental bibs, 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).

Our goal is to increase sales by supplying a comprehensive paper product line directly to medium sized janitorial contractors providing public washroom maintenance services and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct or to the smaller distributors, we eliminate the "middle-man" and are able to offer more competitive pricing. Also, unlike our most significant competitors, we will configure our products to these customers' specifications. Our current focus for expansion in this market is Canada and western USA. We will also pursue opportunities to supply these products directly to smaller hotel, motel and restaurant chains.

During 2005 we finished the installation of the last of the machines that permit us to provide a comprehensive personal hygiene paper product line. In addition, in September 2005, we purchased the equipment of a California based paper converter. The equipment included two more winders for the personal hygiene line and a facial tissue folder, which allowed us to expand our product mix and capacity. It also included a number of other machines that increased our operating efficiency. We are now in a position to increase our marketing efforts. We expect an increase in sales of our personal hygiene products over the next several months, and years. We also aim to increase our sales of clinical and long-term care products.

Personal Hygiene Products – WestBond started this product line during 2002. Our decision to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing medical distributors who wanted to increase their purchasing ability with us. We evaluated this potential and determined that the medical industry had a high demand for these types of products. In addition, we soon learned that small to medium size distributors who sell to the janitorial market were not being serviced well by other paper converters.

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a specialty line of roll towels and bathroom tissue. This specialty line provides us with high margin products that few converters are able to produce. We manufacture our products in 1 and 2 ply formats. We sell these products to Canadian and US distributors and janitorial contractors in large order quantities.

Clinical Products – Historically, this product line represented the Company's core business. Basically, all paper products that are used by clinics, physicians, dentists, 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.

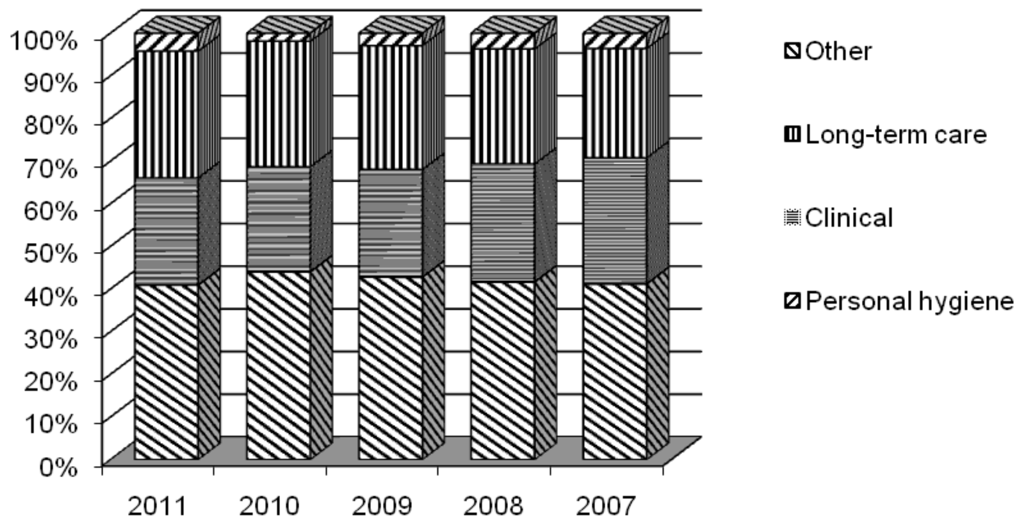
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. Sales in this area have increased to the point that we now dedicate three entire production lines to these items. The products include patient wipes, mitts and underlays. All products are made with very high quality air laid paper which results in very soft, very 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.

These three product groups represent WestBond's ability to adapt to market demands and develop product lines to satisfy these markets.

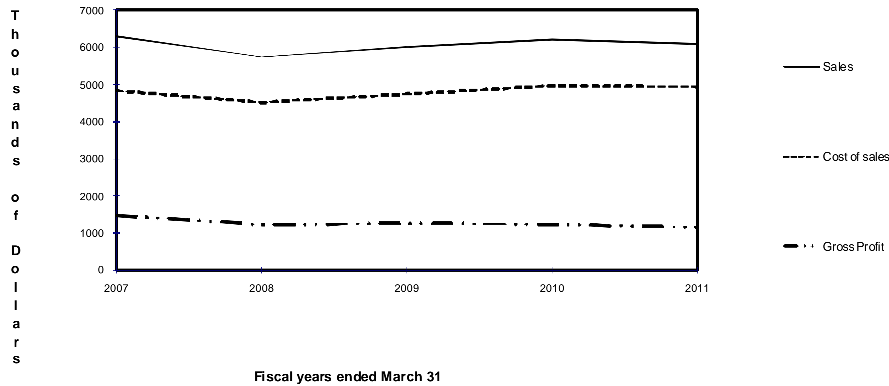
The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2007 through 2011.



Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2011 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.

Our net income for the year ended March 31, 2011 was $29,015, compared to $104,054 for the year ended March 31, 2010. Our gross profit margin realized during 2011 was 18.8%, compared to 19.9% for 2010 and 21.0% for 2009. Our gross profit margins are under pressure due to increased competition from US and Chinese product. The low value of the US dollar makes their product cheaper in Canada, which has reduced our sales and profit margins. Additionally, our sales into the US market, which are priced in US dollars, result in lower Canadian dollar margins.



Selected Annual Information
(Unaudited)

We have summarized selected financial information from the Company's consolidated financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP").

Operating Results	**Years ended March 31,**					
	2011		**2010**		**2009**	
	$	**% of sales**	**$**	**% of sales**	**$**	**% of sales**
Sales	6,085,350	100.0	6,198,326	100.0	6,003,308	100.0
Cost of sales	4,939,413	81.2	4,962,394	80.1	4,743,313	79.0
Gross profit	1,145,937	18.8	1,235,932	19.9	1,259,995	21.0
Selling and marketing expenses	537,459	8.8	493,376	8.0	486,951	8.1
General and administrative expenses	569,052	9.4	593,467	9.5	583,647	9.7
Net income before tax	39,426	0.6	149,089	2.4	189,397	3.2
Income tax expense (recovery)	10,411	0.2	45,035	0.7	25,789	0.5
Net income	29,015	0.4	104,054	1.7	163,608	2.7
Net income per share, basic and diluted	0.00		0.01		0.01	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	**March 31,**		
	2011	**2010**	**2009**
	$	**$**	**$**
Current assets	1,889,545	1,769,470	1,869,063
Plant and equipment	2,494,728	2,521,077	2,675,836
Total assets	4,384,273	4,290,547	4,544,899
Current liabilities	1,025,602	971,302	1,348,487
Long-term liabilities	441,426	431,015	425,406
Shareholders' equity	2,917,245	2,888,230	2,771,006

Sales

Sales were $6,085,350 for the year ended March 31, 2011. This represents a 1.8% decrease over the year ended March 31, 2010.

The table below summarizes the sales of the Company for the last five fiscal years.

	2011	2010	2009	2008	2007
	$	$	$	$	$
Personal hygiene products	2,490,393	2,728,938	2,568,791	2,389,176	2,595,586
Clinical products	1,530,226	1,529,217	1,515,758	1,589,133	1,864,429
Long-term care products	1,809,194	1,822,673	1,744,811	1,548,265	1,616,840
Other products	255,537	117,497	173,948	212,862	226,531
Total sales	6,085,350	6,198,326	6,003,308	5,739,436	6,303,386
Change over previous year	-1.8%	3.2%	4.6%	-8.9%	0.7%

Sales decreased in personal hygiene products and remained relatively flat in clinical and long-term care products. The decrease in personal hygiene products is caused by increased competition from low priced US and Chinese producers and from a reduction in the Canadian dollar value of our US dollar priced product. The long-term care market continues strong due to the aging population; however a large portion of this market is in the US causing revenues to be lower as a result of the lower US dollar value.

Growth in other products is from sales of disposal wiping towels for use in airplane galleys. Approximately 26% of our sales are in priced in US dollars, mainly in the personal hygiene and long-term care products, which makes us susceptible to fluctuations in the Canadian dollar value of the US dollar.

Cost of Sales

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

	2011		2010		2009		2008		2007	
	$	% sales	$	% sales	$	% sales	$	% sales	$	% sales
Materials	3,336,987	54.8	3,362,612	54.2	3,225,162	53.7	3,028,269	52.8	3,305,299	52.4
Labour	512,835	8.4	543,802	8.8	490,067	8.2	456,779	8.0	491,718	7.8
Variable overhead	431,161	7.1	413,911	6.7	387,677	6.5	400,356	7.0	479,490	7.6
Fixed overhead	435,085	7.2	388,175	6.3	378,943	6.3	382,351	6.7	325,581	5.2
Depreciation	223,345	3.7	253,894	4.1	261,464	4.3	247,589	4.3	226,261	3.6
Total cost of sales	4,939,413	81.2	4,962,394	80.1	4,743,313	79.0	4,515,344	78.7	4,828,349	76.6

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. Personal hygiene products and examination table paper have a high materials component and a low labour component. By comparison, gowns, drapes, mitts, sheets and pillowcases have a higher labour component and a relatively lower materials component.

Paper prices, our most significant materials cost, have increased every year since 2006. Exchange rate fluctuations; however, generally worked in our favour to offset the higher US dollar prices. Paper prices were volatile during the last two years and we expect them to remain unsettled during our 2012 fiscal year. Our prices to our customers have been set to allow for paper cost increases of up to 10%. Materials costs also fluctuate from differences in the yield factors (the amount of product that a certain weight of paper will produce).

We had some difficulty obtaining paper supplies during the years ended March 31, 2008 and 2007 because of a shortage in supply and estimate we lost between $100,000 and $150,000 of sales during 2007 and 2008 as a result. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply in the future; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Labour in cost of sales averaged 8.4% of sales during 2011 which is an decrease from 8.8% in 2010, primarily caused by improved employee productivity. The labour market near our factory has been tight during the last two years and it has taken extra time to find and train new machine operators. We saw some relief in the 2010 fiscal year caused by a slowdown in the local construction industry. If we are unable to hire sufficient machine operators, we will not be able to produce additional products for sale.

Variable overhead normally fluctuates slightly from one period to the next. Increased maintenance activities, factory supervision, training and stock transfer costs account for the earlier increases in variable overhead. We curtailed some of these activities starting in 2008 and reduced the costs to a more sustainable level. The increase in 2010 over 2009 is from increased warehouse and factory supervision labour costs. The increase in 2011 over 2010 is from equipment repair and maintenance costs.

Higher rent added $48,825 to fixed overhead in 2011, $6,548 in 2010 and $56,629 in 2008. We rented additional warehouse space which increased the rent. This additional space allows us to maintain higher inventory levels, which reduces short shipments and customer backorders. Other fluctuations in fixed overhead are due to differences in insurance premiums. Increases in depreciation expense are the result of bringing new equipment into use. Depreciation expense decreased in 2011 because we extended our estimates of the economic life of much of our equipment.

Selling Expenses

Shipping costs are higher in 2011 than in 2010 because of increased shipping rates and “fuel surcharges” and because sales to Eastern Canada have increased while local sales have decreased. Sales commissions were lower in 2011. Travel costs to meet with customers were higher in 2011.

General and Administrative Expenses

Our general and administrative costs have decreased in 2011 over 2010 with the exception of an increase in salaries and employee benefits caused by increased administrative staff time. Foreign exchange losses, included in administrative and office costs, were $6,579 in 2011 compared to $39,340 in 2010.

We are exposed to fluctuations in the US/Cdn dollar exchange rates as portions of our cash, accounts receivable and accounts payable are denominated in US dollars. While the amounts of exposure change on a daily basis, we generally have more US dollar financial assets than US dollar liabilities. Over the past year, our exposure ranged from US$110,000 to US$271,000 and averaged approximately US$200,000 (calculated on a quarterly basis). Each change of 1% (e.g., a change from US$1.00 = Cdn$0.97 to Cdn$0.98) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn$2,000 on an exposure of US$200,000. The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US suppliers

Interest expense was lower in 2011 over 2010 because we paid off our term loans and because our bank indebtedness was lower. Interest on our bank indebtedness fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2011, a 1% increase in the prime rate of interest would increase total interest expense by $3,370 per year.

During the year ended March 31, 2011, professional fees include $8,421 paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, one of our directors, is a partner. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties.

We only deal with customers that we consider creditworthy and believe that we are not subject to significant risk due to bad debts. Recent general economic conditions may cause some of our customers to be less creditworthy. We regularly monitor our receivables aging and discuss overdue accounts with senior-level customer personnel to encourage more prompt payment and to evaluate future creditworthiness. At March 31, 2011, accounts receivable include $25,094 that is more than 60 days past due and against which we have made no allowance for loss. We believe that we will eventually receive full payment of these amounts. During 2011 our bad debt losses amounted to $1,211 compared to $1,149 for 2010.

Liquidity and Capital Resources

Our operating cash flows were $269,042 during the year ended March 31, 2011, an average of $22,420 per month, compared to $35,338 per month during 2010, before accounting for fluctuations in non-cash working capital. At March 31, 2011, we had cash of $159,186 and working capital of $863,943 compared to cash of $276,008 and working capital of $798,168 at March 31, 2010.

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

We have a revolving bank loan facility of $1,000,000, of which $337,000 was used at March 31, 2011. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of $700,000 are not included in the calculation. Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as $200,000 and accounts payable by an additional $200,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We also have a $200,000 non-revolving loan facility that may be used to partially finance the purchase specific equipment that we have commissioned to be built. The loan is to be fully drawn by September 30, 2011 and will be repayable in 11 monthly instalments of principal of $5,556 commencing 30 days after drawdown and the final payment of the then remaining principal and interest due one year after drawdown. The loan will bear interest at bank prime plus 1%, payable monthly. A fixed charge on the specific equipment purchased will be pledged as collateral.

We currently plan to spend a total of approximately $300,000 on equipment expansions and improvements during the year ending March 31, 2011. We will finance $200,000 of these additions from the non-revolving loan facility and the rest from operating cash flows. We may acquire additional equipment, if worthy new product opportunities arise. Financing for additional equipment would be available through operating cash flow and additional term loans.

New Accounting Policies

We did not adopt any new accounting standards during the year ended March 31, 2011 that had a significant effect on our financial statements.

We will adopt International Financial Reporting Standards ("IFRS") effective April 1, 2011. There are several differences between IFRS and Canadian GAAP. The differences that will have the most significant impact on our financial statements are the presentation layout, the accounting for plant and equipment, and expanded note disclosure. We do not expect the differences will have a significant effect on our net income, comprehensive income, financial position or cash flows at the "date of transition" (April 1, 2010) or for the year ended March 31, 2011.

IFRS require the financial statements comprise a Statement of Financial Position (Balance Sheet), a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and Notes. The Statement of Financial Position is presented in order of relevant importance to the company, not necessarily in order of liquidity as in Canadian GAAP. The Statement of Comprehensive Income is presented with expenses classified either by function (e.g., cost of sales, selling, general and administrative) or by nature (e.g., materials, labour, depreciation) but not both (which is how our Canadian GAAP Statement of Income and Comprehensive Income is presented). Note disclosure is made of the nature of expenses if the expenses are classified by function. The Statement of Changes in Equity, which is not required under Canadian GAAP, provides a reconciliation between the opening and ending balances of each component of equity. The Statement of Cash Flows under IFRS is similar to Canadian GAAP.

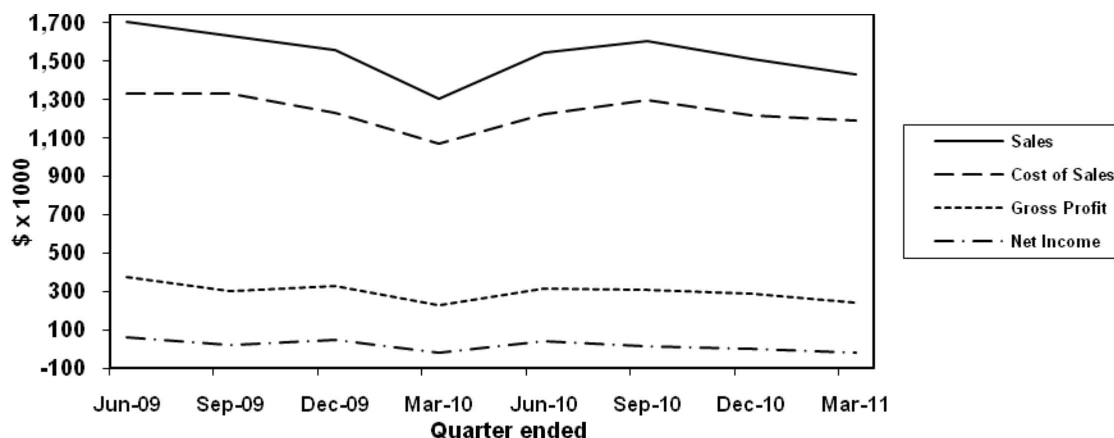
Plant and equipment is more rigorously analysed and evaluated under IFRS than under Canadian GAAP. Depreciation rates, expected useful lives and residual values are estimated and adjusted, if necessary, at each reporting period. Depreciation under IFRS commences when the asset is available for use rather than when it is actually placed into use under Canadian GAAP. Impairment losses are recognized under IFRS if the present value of future cash flows (discounted) expected from an asset or group of assets exceeds its carrying amount and losses may be reversed later if the value recovers. Canadian GAAP uses undiscounted cash flows to determine impairment and recognized losses may not be reversed later. Expenditures on equipment already in service are capitalized under IFRS if the improvement is expected to benefit more than the current period, and then depreciated over the life of that improvement. If the improvement replaces a previous component of the equipment, the cost and accumulated depreciation related to the replaced component are removed under IFRS. Under Canadian GAAP, expenditures on equipment already in service are capitalized only if they improve the original performance or extend the life of the equipment. Expenditures to repair or replace original components are expensed and the original cost of the component is left in the accounts and depreciated over the remaining life of the equipment. We will reduce our plant and equipment cost and accumulated depreciation by $75,700 each to reflect components that were replaced during previous improvement projects. As the components were fully depreciated by the date of transition, there is no change to the net book value.

IFRS 1, *First-time adoption of International Financial Reporting Standards*, provides various optional exemptions from the application of other IFRSs. The only exemptions that we expect will be relevant to our financial statements relate to share based payments and the use of fair value as the deemed cost of items of plant and equipment at the date of transition. The exemption relating to share based payments, which we currently plan to use, permits us to use the values assigned under Canadian GAAP to stock options which were fully vested by the date of transition as the values assigned under IFRS. We currently do not plan to use the exemption that permits us to use the fair value of items of plant and equipment as their deemed cost under IFRS. We have made these elections in order to minimize the effect of conversion from Canadian GAAP to IFRS on our financial statements. We have not completed our analysis of the effects on our financial statements of converting to IFRS. Additionally, IFRS in effect at March 31, 2012 will be applicable to our financial statements for the year ending March 31, 2012. Accordingly, our elections may change based upon further analysis and future changes in IFRS.

Summary of Quarterly Results
(Unaudited)

The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

	Quarters ended							
Cdn$ x 1,000	**Mar 31 2011**	**Dec 31 2010**	**Sep 30 2010**	**Jun 30 2010**	**Mar 31 2010**	**Dec 31 2009**	**Sep 30 2009**	**Jun 30 2009**
Sales	1,432	1,507	1,604	1,542	1,301	1,559	1,632	1,706
Cost of sales	1,192	1,221	1,299	1,227	1,072	1,231	1,329	1,330
Gross profit	240	286	305	315	229	328	303	376
Selling and marketing expenses	128	129	141	139	117	127	117	133
General and administrative expenses	140	156	149	124	140	137	159	157
Net (loss) income before taxes	(28)	1	15	52	(28)	64	27	86
Income tax (recovery) expense	(7)	1	4	12	(6)	18	10	23
Net income (loss)	(21)	0	11	40	(22)	46	17	63
Net income (loss) per share, basic and diluted - Cdn$	(0.002)	0.000	0.001	0.004	(0.002)	0.004	0.002	0.006
Sales - % change over previous quarter	-5.0	-6.1	4.1	18.5	-16.5	-4.5	-4.4	10.6
Costs, expenses and net income - % of Sales								
Cost of sales	83.2	81.0	80.9	79.6	82.4	78.9	81.4	78.0
Selling and marketing expenses	9.0	8.6	8.8	9.0	9.0	8.2	7.1	7.8
General and administrative expenses	9.8	10.3	9.3	8.0	10.8	8.8	9.8	9.2
Income tax (recovery) expense	-0.5	0.1	0.3	0.8	-0.5	1.2	0.6	1.3
Net (loss) income	-1.5	0.0	0.7	2.6	-1.7	2.9	1.1	3.7



The fluctuations in sales are, for the most part, due to changes in volume. The reduction in the value of the US dollar has also caused our sales to decline. The economic stability of the global and North American markets greatly affect our sales volumes. The recent recession has caused a drop in sales in and reduced our gross profit.

Slight variations in cost of sales, as a percentage of sales, occur on a regular basis. These are caused by fluctuations in the product mix, production efficiencies and prices for raw materials.

Share Capital

The Company has only one class of share capital, common shares without par value. The Company also has warrants outstanding to purchase common shares, a stock option plan and a shareholder rights plan.

	Amount at July 18, 2011
Authorized common shares	Unlimited
Issued common shares	11,063,800
Shares issuable on the exercise of outstanding warrants	1,060,000
Shares issuable on exercise of outstanding stock options	800,000
Shares available for future stock option grants	1,200,000

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 2,000,000.

The shareholder rights plan (the "Plan") is meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the Company's annual general meeting in 2012. The Plan, in effect, allows holders of common shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction that is not a Permitted Bid under the Plan. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over bid circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

Other Information

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

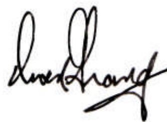
WESTBOND ENTERPRISES CORPORATION

Management's Report on the Financial Statements

The accompanying consolidated financial statements of WestBond Enterprises Corporation have been prepared by and are the responsibility of the company's management. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee comprises three directors, all of whom are neither officers nor employees of the company. The Audit Committee meets with management and the company's auditors, PricewaterhouseCoopers LLP, to review the financial statements before they are presented to the Board of Directors for approval.

PricewaterhouseCoopers LLP have examined these consolidated financial statements and their report follows.



President
July 18, 2011

Secretary/Treasurer

PRICEWATERHOUSECOOPERS

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July 18, 2011

Independent Auditor's Report

To the Shareholders
of WestBond Enterprises Corporation

We have audited the accompanying consolidated financial statements of WestBond Enterprises Corporation, which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WestBond Enterprises Corporation as at March 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

WESTBOND ENTERPRISES CORPORATION

Consolidated Balance Sheets

(Canadian Dollars)

	March 31, 2011	March 31, 2010
	$	$
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	159,186	276,008
Accounts receivable	682,588	454,774
Inventory (note 4)	1,010,150	994,256
Prepaid expenses	37,621	44,432
TOTAL CURRENT ASSETS	1,889,545	1,769,470
PLANT AND EQUIPMENT (note 5)	2,494,728	2,521,077
TOTAL ASSETS	4,384,273	4,290,547
L I A B I L I T I E S		
CURRENT LIABILITIES		
Bank indebtedness (note 6)	337,000	475,000
Accounts payable and accrued liabilities	688,602	456,876
Current portion of term loan (note 7)	-	39,426
TOTAL CURRENT LIABILITIES	1,025,602	971,302
FUTURE INCOME TAX LIABILITIES (note 8)	441,426	431,015
TOTAL LIABILITIES	1,467,028	1,402,317
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (note 10)		
Common shares issued and outstanding	2,099,703	2,099,703
Warrants	32,364	32,364
STOCK OPTIONS (note 10)	254,510	254,510
RETAINED EARNINGS	530,668	501,653
TOTAL SHAREHOLDERS' EQUITY	2,917,245	2,888,230
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,384,273	4,290,547

Nature of Operations (note 1)
Commitments (note 13)

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 Operations, Comprehensive Income and Retained Earnings

(Canadian Dollars)

	Year ended March 31, 2011	2010
	$	**$**
SALES	6,085,350	6,198,326
COST OF SALES		
Materials	3,336,987	3,362,612
Labour	512,835	543,802
Variable overhead	431,161	413,911
Fixed overhead	435,085	388,175
Depreciation	223,345	253,894
Total cost of sales	4,939,413	4,962,394
GROSS PROFIT	1,145,937	1,235,932
EXPENSES		
Selling and marketing		
Shipping	419,074	358,760
Salaries, commissions and employee benefits	96,942	117,809
Other	21,443	16,807
Total selling and marketing expenses	537,459	493,376
General and administrative		
Administration and office	126,884	148,110
Corporate promotion	4,423	5,990
Interest on term loans	249	2,621
Interest on other debt	14,702	15,589
Professional fees	46,564	54,906
Salaries and employee benefits	376,230	366,251
Total general and administrative expenses	569,052	593,467
INCOME FOR THE YEAR BEFORE TAXES	39,426	149,089
PROVISION FOR INCOME TAXES (note 8)		
Future	10,411	45,035
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	29,015	104,054
RETAINED EARNINGS - BEGINNING OF YEAR	501,653	397,599
RETAINED EARNINGS - END OF YEAR	530,668	501,653
Weighted average number of shares outstanding	11,063,800	11,063,800
EARNINGS PER SHARE, basic and diluted	0.00	0.01

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

WESTBOND ENTERPRISES CORPORATION

Consolidated Statements of Cash Flows

(Canadian Dollars)

	Year ended March 31, 2011	2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	29,015	104,054
Adjustments to reconcile net income to cash flows from operating activities		
- depreciation	229,616	261,798
- future income tax expense	10,411	45,035
- stock option expense	-	13,170
Cash flows from operating activities before net change in non-cash working capital	269,042	424,057
Net change in non-cash working capital related to operating activities	1,555	9,151
TOTAL OPERATING ACTIVITIES	270,597	433,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(209,993)	(103,887)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of term loans	(39,426)	(94,572)
Decrease in bank indebtedness	(138,000)	(110,000)
TOTAL FINANCING ACTIVITIES	(177,426)	(204,572)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(116,822)	124,749
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	276,008	151,259
CASH AND CASH EQUIVALENTS - END OF YEAR	159,186	276,008
INTEREST PAID	14,958	18,353
NON-CASH INVESTING ACTIVITIES		
(Decrease) increase in accounts payable and accrued liabilities related to purchase of plant and equipment	(6,726)	3,152

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

1. NATURE OF OPERATIONS

The company is a paper converter that manufactures disposable products for medical, hygienic and industrial uses.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Cdn GAAP") and include the accounts of the company and its wholly owned subsidiary, WestBond Industries Inc.

Financial Instruments

Financial assets, except those classified as held to maturity and derivative financial instruments, are measured at fair value. Financial liabilities are measured at fair value when they are classified as held for trading; otherwise, they are measured at amortized cost.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income which refers to unrealized gains and losses that under generally accepted accounting principles are excluded from net income. The company does not currently engage in any transactions that would result in the reporting of other comprehensive income.

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 ninety days of deposit.

Inventory

Inventory is measured at the lower of cost and net realizable value. Raw materials inventory costs include all costs incurred to bring the materials to their current state and location, including the purchase price, duties, non-refundable taxes and freight. Finished goods inventory includes, in addition to the cost of the raw materials incorporated into their manufacture, the costs of labour incurred directly in their manufacture and an allocation of indirect variable overhead, fixed overhead and depreciation on plant and equipment. Costs are assigned to inventory on a first-in, first-out basis. The overhead allocation is based on the pro-portionate costs of the direct materials and labour costs included in finished goods inventory to the total materials and labour costs incurred during the period.

Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged to earnings using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

Factory equipment	- 5 to 25 years
Leasehold improvements	- 5 to 10 years
Office equipment	- 3 to 15 years

Depreciation is not charged on assets not in service. The company periodically reviews and adjusts, if appropriate, the estimated useful lives of plant and equipment. The company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future cash flows the assets are expected to generate. When the carrying amount exceeds estimated future cash flows, the assets are written down to fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation Plan

The company has a stock-based compensation plan, which is described in note 10. The fair value of stock-based compensation and other stock-based payments made in exchange for goods and services is recorded as compensation expense, or a cost of the goods or services acquired in exchange, and a contribution to shareholders' equity during the period in which the stock-based compensation or stock-based payments vest.

Revenue

Revenue is recognized in the period during which title to the goods sold passes to the purchaser, which is generally when the goods are shipped. Revenue is reported net of estimated returns, discounts and rebates.

Income Taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of stock options and that the assumed proceeds from the exercise of stock options are used to purchase common shares at the average market price during the period. The excess, if any, over the number of shares assumed issued and the number of shares assumed purchased is added to the basic weighted average number of shares outstanding to determine the diluted number of common shares outstanding. If the average market price during the period is less than the exercise price of the stock options, no dilution will occur.

Use of Estimates

The preparation of financial statements in accordance with Cdn GAAP requires the company's management to make estimates and assumptions 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 estimates are made in the determination of allowances for doubtful accounts receivable, the net realizable value of inventories, the useful lives of plant and equipment and the reversal dates of future income tax assets and liabilities.

Changes in Accounting Policies

Consolidated Financial Statements – CICA Handbook Sections 1601 – Consolidated Financial Statements – and 1602 – Non-controlling Interests – have been issued and replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards ("IFRS") standard, IAS 27 (Revised) – Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

year. The application of this standard is not expected to have a material effect on the company's consolidated financial statements.

International Financial Reporting Standards

Canadian public companies are required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective April 1, 2011 the company will adopt IFRS as the basis for preparing its consolidated financial statements. The company will prepare its financial statements for the quarter ending June 30, 2011 in accordance with IFRS, which will include comparative data for the prior year also prepared in accordance with IFRS.

3. FINANCIAL INSTRUMENTS

The company has various financial instruments including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and term loans. Cash and cash equivalents are considered to be held for trading and are measured at fair value. Accounts receivable and all financial liabilities are carried at amortized cost.

CICA Handbook Section 3862, Financial Instruments - Disclosures, 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. The section describes 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 are measured using level 1 inputs. Accounts receivable, bank indebtedness, and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of the term loans approximates the carrying value.

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Accounts receivable are the result of sales to a relatively wide customer base, primarily in North America. The company only deals with customers that it considers creditworthy. At March 31, 2011, $25,094 (2010 – $12,016) of accounts receivable were between 31 and 60 days past due and $9,007 (2010 – $12,081) were more than 60 days past due. The company does not consider these accounts impaired based on a review of the debtors' operations and subsequent payments.

The company's bank indebtedness and term loan are at interest rates that fluctuate with market interest rates. At the levels of indebtedness at March 31, 2011, a 1% increase in the annual rate of interest would cause interest expense to increase and operating cash flows to decrease by $3,370 per year.

3. FINANCIAL INSTRUMENTS (continued)

Portions of the company's cash, accounts receivable and accounts payable are denominated in US dollars; accordingly, the company is exposed to fluctuations in the US/Cdn dollar exchange rates. While the amounts of exposure change on a daily basis, the company generally has more US dollar financial assets than US dollar liabilities. Over the past year, the exposure ranged from US$110,000 to US$270,000 and averaged approximately US$200,000 (calculated on a quarterly basis). Each change of 1% (e.g., a change from US$1.00 = Cdn$0.97 to Cdn$0.98) in the value of the US dollar in relation to the Cdn dollar results in a gain or loss (before income tax), with a corresponding effect on cash flows, of Cdn$2,000 on an exposure of US$200,000. During the year ended March 31, 2011, the company realized foreign exchange losses of $6,579 (2010 - $39,340). The US dollar financial assets generally result from sales to US customers. The US dollar financial liabilities generally result from purchases of raw materials from US suppliers.

4. INVENTORY

	2011	2010
	$	$
Raw materials	790,259	673,430
Finished goods	219,891	320,826
Total inventory	1,010,150	994,256

5. PLANT AND EQUIPMENT

	2011			2010		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	$	$	$	$	$	$
Factory equipment	4,526,794	2,141,525	2,385,269	4,424,790	1,921,894	2,502,896
Leasehold improvements	45,298	37,987	7,311	41,459	36,774	4,685
Office equipment	100,084	84,062	16,022	96,033	82,537	13,496
Deposits on equipment under construction	86,126	-	86,126	-	-	-
Total plant and equipment	4,758,302	2,263,574	2,494,728	4,562,282	2,041,205	2,521,077

Included in factory equipment are assets costing $276,006 (2010 – $240,526) that had not been put into use at year-end.

6. BANK INDEBTEDNESS

The company has a $1,000,000 revolving bank loan facility. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of U.S. accounts receivable and 50% of inventory, less accounts payable having priority to the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of $700,000 are not included in the calculation. The loan outstanding under the facility bears interest at bank prime rate plus 0.75% per annum and is payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

The company also has a $200,000 non-revolving bank loan facility available that may be used to partially finance the purchase of specific equipment the company has commissioned to be built. The

6. BANK INDEBTEDNESS (continued)

loan is to be fully drawn by September 30, 2011 and will be repayable in 11 monthly instalments of principal of $5,556 commencing 30 days after drawdown and the final payment of the then remaining principal and interest due one year after drawdown. The loan will bear interest at bank prime plus 1%, payable monthly. A fixed charge on the specific equipment purchased with the loan proceeds will be pledged as collateral.

7. TERM LOAN

The term loan of $39,426 outstanding at March 31, 2010 was from a Canadian chartered bank. Minimum term loan repayments were $7,881 per month and the final payment was August 16, 2010. The loan bore interest at bank prime plus 0.75%. A fixed and floating charge on substantially all of the company's assets was pledged as collateral for the loan.

8. INCOME TAXES

The components of the company's future income tax liabilities are the tax effects of temporary differences in the tax and accounting bases of:

	2011	2010
	$	$
Plant and equipment	470,855	463,767
Non-capital losses carried forward	(26,495)	(30,907)
Other tax deductions carried forward	(2,934)	(1,845)
Total future income tax liabilities	441,426	431,015

The income tax expense shown on the consolidated statement of operations and deficit differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to the net income before taxes as follows:

	2011	2010
Combined statutory rate	28.01%	29.63%
	$	$
Income tax expense based on the statutory rates	11,042	44,175
Tax effect of expenses that are not deductible for income tax purposes	2,447	7,221
Effect of reductions in the statutory tax rates	(3,078)	(6,361)
Income tax expense for the year	10,411	45,035

The company has non-capital losses available to reduce future taxable income of $105,979. The value of these losses is offset against future income tax liabilities. The losses expire as follows:

	$
March 31, 2028	81,280
2029	5,093
2030	13,345
2031	6,261

9. CAPITAL DISCLOSURES

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 bank indebtedness and term 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.

10. SHARE CAPITAL

Authorized

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

Issued	Number	Ascribed value
		$
Common shares	11,063,800	2,099,703
Warrants	1,060,000	32,364

Each warrant entitles the holder to purchase one common share at $0.125 per share until July 17, 2012.

Stock Option Plan

The company has adopted a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 2,000,000. Options granted under the plan generally have a term of three to five years and vest as to 12-1/2% or 25% upon granting and 12-1/2% every three months after that. 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.

Stock options were granted, exercised and forfeited as follows:

	Number of shares subject to option	Weighted average exercise price
		$
Outstanding at March 31, 2009	1,360,000	0.17
Expired during the year ended March 31, 2010	(560,000)	0.27
Outstanding at March 31, 2010 and 2011	800,000	0.10

The fair value of the options granted is charged to earnings based on the vesting schedule, typically over 21 months. Stock based compensation expense for the year ended March 31, 2011 was $nil (2010 – $13,170).

The options outstanding at March 31, 2011 expire as follows:

Expiry date	Total number of shares subject to option	Weighted average remaining contractual life	Weighted average exercise price of all options	Number of shares subject to options that are vested	Weighted average exercise price of vested options
March 12, 2013	800,000	1.9 years	$0.10	800,000	$0.10

10. SHARE CAPITAL (continued)

Shareholder Rights Plan

The company has adopted a shareholder rights plan (the "Plan") to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan will remain in effect until the close of the company's annual general meeting in 2012. The Plan, in effect, allows holders of common shares to purchase additional common shares from the company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the company in a transaction that is not a Permitted Bid under the Plan. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

11. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2011, the company incurred $8,421 (2010 – $17,641) of legal fees in the normal course of operations with a firm in which a director of the company is a partner. The fees are included in professional fees. At March 31, 2011 accounts payable and accrued liabilities include $1,233 (2010 – $1,544) due to the firm. The fees are at rates comparable to those charged to un-related parties.

12. SEGMENTED INFORMATION

The company operates in one industry, the disposable paper and polyethylene industry. The company's plant and equipment are located in Canada. During the year ended March 31, 2011, the company had domestic sales in Canada of $4,678,051 (2010 – $4,672,465) and export sales to the United States of $1,407,299 (2010 – $1,525,861). During the year ended March 31, 2011, the company had sales to two customers of $1,484,441 (2010 – one customer, $906,645) each of whom represented more than 10% of sales.

13. COMMITMENTS

The company has entered into operating lease agreements for premises which expire in June 2014. Future minimum lease payments are as follows:

	$
Year ending March 31, 2012	310,118
2013	314,560
2014	316,041
2015	79,010

Operating costs and property taxes for the premises, currently estimated at $116,000 per year, are payable in addition to the minimum lease payments.

The company has committed to the purchase of equipment in the amount of US$275,000, of which US$82,500 has been paid at March 31, 2011.