Condensed interim consolidated financial statements of

Unisync Corp.

As at and for the three and nine month period ended June 30, 2017

Unisync Corp.
June 30, 2017

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Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed these condensed unaudited interim consolidated financial statements as at and for the three and nine months ended June 30, 2017.

Unisync Corp.

Condensed interim consolidated statements of comprehensive income (loss)
For the three and nine months ended June 30, 2017 and June 30, 2016

(Expressed in Canadian dollars)
(Unaudited)

	three months ended		nine months ended	
	June 30	June 30	**June 30**	June 30
	2017	2016	**2017**	2016
	$	$	$	$
Revenue	**17,304,867**	12,546,027	**45,462,422**	39,681,729
Direct expenses (Note 15)	**14,113,420**	10,807,382	**37,513,572**	33,243,377
General and administrative expenses (Note 15)	**2,205,933**	1,989,129	**6,134,616**	6,174,418
Depreciation and amortization	**209,040**	194,771	**607,691**	583,329
	776,474	(445,255)	**1,206,543**	(319,395)
Interest expense	**180,229**	243,086	**611,395**	638,936
Share-based payment (Note 13)	**71,679**	28,977	**221,155**	158,518
Net income (loss) before income taxes	**524,566**	(717,318)	**373,993**	(1,116,849)
Income tax expense (recovery) (Note 14)	**120,103**	(187,439)	**86,372**	(270,348)
Net income (loss) and total comprehensive income (loss)	**404,463**	(529,879)	**287,621**	(846,501)
Attributable to				
Unisync Corp. shareholders	**258,892**	(574,354)	**(13,626)**	(955,654)
Minority partner	**145,571**	44,475	**301,247**	109,153
	404,463	(529,879)	**287,621**	(846,501)
Net income (loss) per share attributable to Unisync Corp. shareholders				
Basic	**0.02**	(0.05)	**0.00**	(0.08)
Diluted	**0.02**	(0.05)	**0.00**	(0.08)
Weighted average number of shares	**13,337,698**	12,658,643	**13,331,654**	12,622,280
Diluted weighted number of shares outstanding	**13,447,861**	12,745,130	**13,429,406**	12,685,573

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

Unisync Corp.

Condensed interim consolidated statements of financial position
As at June 30, 2017 and September 30, 2016
(Expressed in Canadian dollars)
(Unaudited)

	June 30, 2017	September 30, 2016
	$	$
Assets		
Current assets		
Cash	**527,222**	60,828
Trade and other receivables	**8,372,556**	7,576,332
Inventory (Note 5)	**26,684,816**	19,633,998
Prepaid expenses	**6,137,478**	2,140,709
	41,722,072	29,411,867
Non-current assets		
Cash surrender value of life insurance policy	**83,281**	83,281
Property, plant and equipment (Note 6)	**4,040,560**	4,113,473
Deferred tax asset (Note 14)	**2,352,860**	2,639,811
Intangible assets (Note 7)	**1,469,262**	1,372,761
Goodwill (Note 8)	**3,233,942**	3,233,942
	52,901,977	40,855,135
Liabilities		
Current liabilities		
Operating loan (Note 9)	**4,205,204**	14,166,150
Trade payables and accrued liabilities	**4,141,100**	4,289,669
Provision for income taxes (Note 14)	**817,074**	1,048,677
Deferred revenue	**25,606,317**	2,832,175
Current portion of term loan (Note 9)	**1,200,000**	1,200,000
Current portion of note payable (Note 10)	**191,521**	181,424
Shareholder advances (Note 11)	**2,737,630**	2,422,573
	38,898,846	26,140,668
Non-current liabilities		
Term loan (Note 9)	**1,780,000**	2,672,500
Note payable (Note 10)	**-**	144,923
Due to minority partner (Note 12)	**1,500,000**	1,500,000
	42,178,846	30,458,091
Commitments and contingencies (Note 16)		
Equity		
Share capital (Note 13)	**11,689,743**	11,599,743
Share-based payment reserve	**859,386**	638,231
Deficit	**(1,837,939)**	(1,824,313)
Equity attributable to Unisync Corp. shareholders	**10,711,190**	10,413,661
Equity (deficit) attributable to minority partner	**11,941**	(16,617)
	10,723,131	10,397,044
	52,901,977	40,855,135

Approved by the Board

(Signed) Douglas F. Good, Douglas F. Good, Director

(Signed) Bruce W. Aunger, Bruce W. Aunger, Director

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of these condensed interim consolidated financial statements

Unisync Corp.

Condensed interim consolidated statements of changes in equity
For the nine months ended June 30, 2017 and June 30, 2016

(Expressed in Canadian dollars)
(Unaudited)

	Capital stock Shares	Capital stock Amount	Share-based payment reserve	Deficit	Equity attributable to Unisync Corp. shareholders	Minority Interest	Total equity
		$	$	$	$	$	$
Balance,							
September 30, 2015	**12,604,198**	**10,442,354**	**440,279**	**(702,775)**	**10,179,858**	**(22,215)**	**10,157,643**
Shares issued on exercise of							
stock options (Note 13 (d))	183,500	184,062	(562)	-	183,500	-	183,500
Share-based payment	-	-	158,518	-	158,518	-	158,518
Distribution to minority partner	-	-	-	-	-	(92,773)	(92,773)
Net income (loss) and							
total comprehensive income (loss)	-	-	-	(955,654)	(955,654)	109,153	(846,501)
Balance,							
June 30, 2016	**12,787,698**	**10,626,416**	**598,235**	**(1,658,429)**	**9,566,222**	**(5,835)**	**9,560,387**
Balance,							
September 30, 2016	**13,287,698**	**11,599,743**	**638,231**	**(1,824,313)**	**10,413,661**	**(16,617)**	**10,397,044**
Shares issued on exercise of							
stock options (Note 13 (d))	50,000	90,000	-	-	90,000	-	90,000
Share-based payment	-	-	221,155	-	221,155	-	221,155
Distribution to minority partner	-	-	-	-	-	(272,689)	(272,689)
Net income (loss) and							
total comprehensive income (loss)	-	-	-	(13,626)	(13,626)	301,247	287,621
Balance,							
June 30, 2017	**13,337,698**	**11,689,743**	**859,386**	**(1,837,939)**	**10,711,190**	**11,941**	**10,723,131**

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

Unisync Corp.

Condensed interim consolidated statements of cash flows

For the three and nine months ended June 30, 2017 and June 30, 2016

(Expressed in Canadian dollars)
(Unaudited)

	three months ended		nine months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
	$	$	**$**	$
Operating activities				
Net income (loss)	**404,463**	(529,879)	**287,621**	(846,501)
Adjustments for:				
Interest expense	**180,229**	243,086	**611,395**	638,936
Income tax expense (recovery)	**120,103**	(187,439)	**86,372**	(270,348)
Income taxes paid	**-**	(6,392)	**(31,024)**	(61,783)
Depreciation and amortization	**209,040**	194,771	**607,691**	583,329
Proceeds on disposal of property, plant and equipment	**-**	5,907	**-**	5,907
Increase in cash surrender value of life insurance	**-**	-	**-**	(4,068)
Share-based payment	**71,679**	28,977	**221,155**	158,518
	985,514	(250,969)	**1,783,210**	203,990
Changes in non-cash working capital items				
Trade and other receivables	**(1,700,209)**	800,117	**(796,224)**	163,833
Inventory	**(5,587,811)**	(2,143,752)	**(7,050,818)**	(2,979,537)
Prepaid expenses	**1,924,309**	287,504	**(3,996,768)**	706,958
Trade payables and accrued liabilities	**(861,649)**	(482,874)	**(148,569)**	(210,053)
Provision for income taxes	**-**	-	**-**	(729)
Deferred revenue	**9,624,674**	173,293	**22,774,142**	(402,491)
	4,384,828	(1,616,681)	**12,564,973**	(2,518,029)
Investing activities				
Purchase of property, plant and equipment	**(186,652)**	(32,672)	**(213,953)**	(71,670)
Purchase of intangible assets	**(108,728)**	(35,835)	**(417,326)**	(253,813)
	(295,380)	(68,507)	**(631,279)**	(325,483)
Financing activities				
Increase (decrease) in operating loan	**(3,366,318)**	1,906,940	**(9,960,946)**	1,862,941
Term loan repayments	**(300,000)**	-	**(900,000)**	(600,000)
Shareholder advances	**-**	-	**-**	2,105,000
Note payment	**(45,885)**	(42,510)	**(134,826)**	(124,646)
Interest paid	**(73,145)**	(147,361)	**(288,839)**	(429,559)
Distributions to minority partner	**(141,437)**	(34,552)	**(272,689)**	(92,773)
Proceeds on exercise of stock options	**-**	183,500	**90,000**	183,500
	(3,926,785)	1,866,017	**(11,467,300)**	2,904,463
Net cash inflows (outflows)	**162,663**	180,829	**466,394**	60,951
Cash, beginning of period	**364,559**	86,066	**60,828**	205,944
Cash, end of period	**527,222**	266,895	**527,222**	266,895

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

1. Nature of business

Unisync Corp. is incorporated under the laws of British Columbia. Its head office, principal address, and registered and records office are located at Suite 508, 333 Seymour Street, Vancouver, British Columbia, Canada.

The Company operates in two main business segments that are involved in the manufacture and distribution of garments and uniforms, the results of which are provided in note 18.

The Peerless segment includes the Company's 90% interest in the business of Winnipeg-based Peerless Garments LP and 100% of Peerless Garments Inc., the general partner. Peerless manufactures harsh weather outerwear for the Canadian military and other government agencies.

The UGL segment comprises the operations of Unisync Group Limited of Mississauga, Ontario, Carleton Uniforms Inc. of Carleton Place, Ontario and Omega Uniform Systems Ltd. of Vancouver, British Columbia. This segment is involved in the design, manufacture and distribution of direct sale uniforms, workwear, image apparel and related solutions. The UGL segment operates distribution centres in Guelph, Ontario, Winnipeg, Manitoba, Carleton Place, Ontario and Vancouver, British Columbia.

2. Basis of presentation and significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements but have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended September 30, 2016. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted.

These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's annual filings for the year ended September 30, 2016 as filed on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on August 23, 2017.

3. Accounting standards issued but not yet applied

The following standards have been issued but are not yet effective:

IAS 7 – Statement of Cash Flows

IAS 12 – Income Taxes

IFRS 2 – Share-based Payment

IFRS 9 - Financial Instruments

IFRS 15 - Revenue from Contracts with Customers

IFRS 16 - Leases

The Company has not early adopted these new and amended standards and is currently assessing the impact of these new and amended standards on its consolidated financial statements.

4. Critical accounting estimates and judgments

The preparation of these condensed consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Accounts receivable

The Company makes a provision for doubtful accounts on a customer by customer basis to provide for possible uncollectible accounts. This requires judgment on the part of management and prior collection history.

(b) Inventory

The Company determines the value of work in progress inventory (“WIP”) and estimated net realizable value at the end of each reporting period. Management allocates costs, such as for materials, labour attributable to goods in production and an allocation of overhead, to WIP for manufacturing contracts currently in the production stage based on management’s estimate of the percentage completion of the contracts, and the nature of the costs for that particular contract. Estimates are required in relation to forecasted sales volumes and finished good inventory balances. In situations where excess or slow moving inventory balances are identified, the Company assesses its ability to recover customer payment for such inventory and estimates of net realizable values for the excess or slow moving volumes are made.

(c) Share-based payment

The Company provides incentives via share-based payment entitlements (Note 13). The fair value of entitlements is determined in accordance with the accounting policy in Note 2(n) of the audited consolidated financial statements for the year ended September 30, 2016. If certain assumptions used in the fair value calculation were to change, there would be an impact on the share-based payment expense recognized in the current period.

(d) Income taxes

The Company is subject to income taxes in Canada. Management has estimated the income tax provision and deferred income tax balances in accordance with its interpretation of the various income tax laws and regulations, and has estimated the recoverability of deferred tax balances. It is possible, due to complexity inherent in estimating income taxes that the tax provision and deferred income tax balances could change.

(e) Estimated useful lives

Management estimates the useful lives of property, plant and equipment, and intangible assets based on the period during which the assets are available for use. The amounts and timing of depreciation and amortization for these amounts are affected by the useful lives. The estimates are reviewed annually and are updated for changes in the expected useful life.

(f) Impairment of long lived assets

The Company considers both internal and external sources of information in assessing its tangible and intangible assets for impairment when events or circumstances indicate such. The Company determines the recoverable amount, which is the greater of its value in use and its fair value less costs to sell, using discounted cash flows expected to be derived from the tangible or intangible asset, and the appropriate discount rate.

(Expressed in Canadian dollars)

4. Critical accounting estimates and judgments (continued)

(g) Impairment of goodwill

The Company considers both internal and external sources of information in assessing its goodwill for impairment on an annual basis. The Company determines the recoverable amount, which is the greater of its value in use and its fair value less costs to sell, using discounted cash flows expected to be derived from the Company's operations, and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about expected revenues from contracts, estimated costs of production, and the discount rate.

(h) Allocation of purchase consideration

Business combinations require judgment and estimates to be made at the date of acquisition in relation to determining asset and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities and the determination of a bargain purchase gain on acquisition, if any. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgments and estimates about future events, including but not limited to estimates of future earnings, future operating costs and capital expenditures, and discount rates. Changes to the provisional measurements of assets and liabilities acquired may be retrospectively adjusted when new information is obtained until the final measurements are determined.

5. Inventory

	June 30, 2017	September 30, 2016
	$	$
Raw materials	**4,943,210**	4,168,773
Work in process	**1,742,972**	1,905,743
Finished goods	**19,998,634**	13,559,482
	26,684,816	19,633,998

Cost of inventories recognized as an expense during the nine months ended June 30, 2017 amounted to $31,590,261 (June 30, 2016 - $27,026,763). During the nine months ended June 30, 2017, inventory was written down by $609,191 (June 30, 2016 - $30,852) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value was $23,050 at June 30, 2017 (at September 31, 2016 – $400,216), with the remaining inventory recorded at cost.

(Expressed in Canadian dollars)

6. Property, plant and equipment

June 30 2017

	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at September 30, 2016	422,730	2,695,000	1,444,014	583,847	95,878	80,489	357,594	5,679,552
Additions	-	-	130,557	71,242	7,349	37,065	(1,056)	245,157
Disposals	-	-		-	-	(31,204)	-	(31,204)
Balance at June 30, 2017	**422,730**	**2,695,000**	**1,574,571**	**655,089**	**103,227**	**86,350**	**356,538**	**5,893,505**
Accumulated depreciation								
Balance at September 30, 2016	-	354,355	582,365	376,253	44,161	56,662	152,283	1,566,079
Depreciation	-	43,887	122,770	70,816	15,864	(19,586)	53,115	286,866
Balance at June 30, 2017	**-**	**398,242**	**705,135**	**447,069**	**60,025**	**37,076**	**205,398**	**1,852,945**
Net carrying amount								
At June 30, 2017	**422,730**	**2,296,758**	**869,436**	**208,020**	**43,202**	**49,274**	**151,140**	**4,040,560**

September 30 2016

	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at September 30, 2015	422,730	2,695,000	1,392,557	553,347	95,878	80,489	327,517	5,567,518
Additions	-	-	57,641	30,500	-	-	30,077	118,218
Disposals	-	-	(6,184)	-	-	-	-	(6,184)
Balance at September 30, 2016	422,730	2,695,000	1,444,014	583,847	95,878	80,489	357,594	5,679,552
Accumulated depreciation								
Balance at September 30, 2015	-	294,339	372,970	361,549	31,937	44,640	76,137	1,181,572
Depreciation	-	60,016	209,395	14,704	12,224	12,022	76,146	384,507
Balance at September 30, 2016	-	354,355	582,365	376,253	44,161	56,662	152,283	1,566,079
Net carrying amount								
At September 30, 2016	422,730	2,340,645	861,649	207,594	51,717	23,827	205,311	4,113,473

(Expressed in Canadian dollars)

7. Intangible assets

June 30 2017

$

	Computer software	Intangible assets from Carleton acquisition	Standards certification	Total
Cost				
Balance at September 30, 2016	1,539,918	251,440	10,283	1,801,641
Additions	364,471	-	52,855	417,326
Balance at June 30, 2017	**1,904,389**	**251,440**	**63,138**	**2,218,967**
Accumulated amortization				
Balance at September 30, 2016	378,984	49,896	-	428,880
Amortization	293,959	26,866	-	320,825
Balance at June 30, 2017	**672,943**	**76,762**	**-**	**749,705**
Net carrying amount				
At June 30, 2017	**1,231,446**	**174,678**	**63,138**	**1,469,262**

September 30 2016

$

	Computer software	Intangible assets from Carleton acquisition	Standards certification	Total
Cost				
Balance at September 30, 2015	1,227,531	251,440	-	1,478,971
Additions	312,387	-	10,283	322,670
Balance at September 30, 2016	1,539,918	251,440	10,283	1,801,641
Accumulated amortization				
Balance at September 30, 2015	-	13,876	-	13,876
Amortization	378,984	36,020	-	415,004
Balance at September 30, 2016	378,984	49,896	-	428,880
Net carrying amount				
At September 30, 2016	1,160,934	201,544	10,283	1,372,761

(Expressed in Canadian dollars)

8. Goodwill

	June 30 2017
	$
Cost	
Balance at September 30, 2016	**3,233,942**
Balance at June 30, 2017	**3,233,942**

	September 30 2015
	$
Cost	
Balance at September 30, 2015	3,233,942
Balance at September 30, 2016	3,233,942

The goodwill arose on acquisition of Peerless in 2010 and from the acquisitions of Carleton and Omega in 2015. For impairment testing purposes, the goodwill is allocated to the cash-generating unit ("CGU"). There has been no change to the goodwill since each acquisition.

9. Loan facilities

	June 30, 2017	September 30, 2016
	$	$
Operating loan (a)	**4,205,204**	14,166,150
Current portion of term loan (b)	**1,200,000**	1,200,000
Term loan (b)	**1,780,000**	2,672,500
	7,185,204	18,038,650

Changes to the Company's debt obligations for the nine month period ended June 30, 2017 are as follows:

	June 30 2017
	$
Balance, at September 30, 2016	18,038,650
Repayment of operating loan	(9,960,946)
Repayment of term loan	(900,000)
Amortization of financing fees	7,500
Balance, at June 30, 2017	7,185,204

(Expressed in Canadian dollars)

9. Loan facilities (continued)

(a) The Company has established two operating loan facilities totalling $18,500,000 with a Canadian chartered bank to finance its working capital requirements. Borrowings under these revolving loan facilities are subject to normal margining requirements that limit borrowings to acceptable accounts receivable and inventory and the appraised value of land and buildings. As at June 30, 2017, combined drawings under the operating loan facilities were $4,205,204 (September 30, 2016 - $14,166,150). The borrowings under the operating loan facilities are available by way of prime rate advances or banker's acceptances. Prime rate advances under the operating loan facilities bear interest in a range of bank prime rate plus 1/2% to 3/4% per annum. In addition, the Company has entered into short term contracts totalling US$5,500,000 (September 30, 2016 – nil) under a foreign exchange loan facility, a $100,000 credit card facility and an unutilized $10,500,000 interest rate swap facility. Security for the loan facilities include a first mortgage on the Company's land and buildings, general security agreements, a specific pledge of certain assets and inter-company guarantees. As at June 30, 2017, the Company was in compliance with the covenants of its operating loan facilities.

(b) Borrowings under the term loan facility are available by way of prime rate advances or banker's acceptances. Prime rate advances under the term loan facility bear interest in a range of bank prime rate plus 1/2% to 1% depending upon the ratio of debt to tangible net assets. The term loan is repayable by way of quarterly principal payments of $300,000. In addition to the term loan facility, the Company has an unutilized interest rate swap facility with availability up to the amount outstanding under the term loan facility. The term loan facility and the related interest rate swap facility are secured by a pledge of the assets owned by the Company and by guarantees from the Company's subsidiaries. As at June 30, 2017, the Company was in compliance with the covenants of its term loan facility.

10. Note payable

	June 30, 2017	September 30, 2016
	$	$
Current portion of note payable	**191,521**	181,424
Note payable	**-**	144,923
	191,521	326,347

The vendors of Carleton received consideration that included a $600,000 note. The note is interest free, unsecured and payable in twelve (12) equal quarterly payments of $50,000 each from August 12, 2015 to May 12, 2018. The note was discounted at the Company's weighted average cost of capital of 6.8% to impute a present value amount of $533,979 at the May 12, 2015 date of issuance.

11. Shareholder advances

	June 30 2017	September 30 2016
	$	$
Shareholder advances	**2,105,000**	2,105,000
Accrued interest and processing fees	**632,630**	317,573
	2,737,630	2,422,573

The Company has received bank postponed shareholder advances of $2,105,000. The advances bear interest at 8% per annum and are subject to a processing fee of 4% to 5%. Repayment of the principal amounts of the advances and the accrued interest and processing fees is due on March 15, 2018.

(Expressed in Canadian dollars)

12. Due to minority partner

As part of the acquisition of Peerless in 2010, the Company and the minority partner entered into a put/call agreement at a fixed price of $1,500,000. As the notice period for a triggering event is a minimum duration of one year plus one day, the Company has recorded the $1,500,000 redemption amount as a non-current liability at June 30, 2017.

13. Capital stock

(a) *Authorized*

Unlimited number of the following classes of shares:

- Class B voting common shares without par value.
- Class A preferred shares issuable in series.

(b) *Shares issued and fully paid*

	Number of shares	
	Class B common shares	Amount
		$
Balance, September 30, 2015	12,604,198	10,442,354
Shares issued for cash (Note 13 (c))	500,000	973,327
Shares issued on exercise of stock options (Note 13 (d))	183,500	184,062
Balance, September 30, 2016	13,287,698	11,599,743
Shares issued on exercise of stock options (Note 13 (d))	50,000	90,000
Balance, June 30, 2017	**13,337,698**	**11,689,743**

(c) *Share issuance*

In August 2016, the Company completed a private placement whereby 500,000 Class B common were issued for proceeds of $1,000,000. The issue costs related to the private placement were $26,673.

(d) *Stock options*

The stock option plan provides that, subject to the requirements of the TSX Venture Exchange (the “Exchange”), the aggregate number of common shares reserved for issuance under the stock option plan may not exceed 10% of the issued and outstanding common shares of the Company.

On October 1, 2015, 50,000 stock options were granted for a term of three years and vest over one year at a rate of 12,500 per quarter.

On October 3, 2016, 340,000 stock options were granted for a term of five years and vest over three to five years annually in arrears from the date in which they were granted.

On April 6, 2017 and on May 2, 2017, 155,000 and 5,000 stock options respectively were granted for a term of five years and vest over five years annually in arrears from the date in which they were granted.

During the nine months ended June 30, 2017, 50,000 options were exercised at a weighted average exercise price of $1.80 (June 30, 2016 – 183,500 options were exercised at a weighted average exercise price of $1.00) and 174,000 options were forfeited (June 30, 2016 – 20,000 options).

(Expressed in Canadian dollars)

13. Capital stock (continued)

The following table summarizes stock options outstanding:

	nine months ended June 30, 2017		nine months ended June 30, 2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of period	**985,000**	**1.75**	1,158,500	1.63
Granted during the period	**500,000**	**2.48**	50,000	1.80
Exercised during the period	**(50,000)**	**1.80**	(183,500)	1.00
Forfeited during the period	**(174,000)**	**1.75**	(20,000)	1.75
Outstanding, end of period	**1,261,000**	**2.04**	1,005,000	1.75

Based on the above vesting schedule, a stock option compensation expense of $221,155 was recognized for the nine month period ended June 30, 2017 (June 30, 2016 - $158,518) and a corresponding amount was added to share-based payment reserve as a reserve for share-based payments. Option pricing models require the use of highly subjective estimates and assumptions, changes in which can materially affect the value estimates.

14. Income taxes

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate (see below) applicable to consolidated profits of the Company are as follows:

	nine months ended June 30 2017	nine months ended June 30 2016
	$	$
Income tax recovery	**(200,579)**	(105,004)
Deferred tax expense (recovery)	**286,951**	(165,344)
Income tax expense (recovery)	**86,372**	(270,348)

The tax on the Company's net (loss) income before tax differs from the amount that would arise using the weighted average tax rate applicable to consolidated profits of the Company as follows:

	nine months ended June 30 2017	nine months ended June 30 2016
	$	$
Net income (loss) before income taxes	**373,993**	(1,116,849)
Tax rate	**26.4%**	25.9%
	98,725	(289,186)
Taxes attributable to minority partner	**(78,395)**	(28,417)
True-ups	**19**	(729)
Permanent differences	**66,023**	47,984
Income tax recovery	**86,372**	(270,348)

(Expressed in Canadian dollars)

14. Income taxes (continued)

The Company's deferred tax asset (liability) consists of the following:

	June 30 2017	September 30 2016
	$	$
Deferred tax assets		
Available non-capital losses and other tax deductions	**3,085,492**	3,398,532
Deferred tax liabilities		
Property, plant and equipment	**(732,632)**	(758,721)
	2,352,860	2,639,811

The Company has non-capital losses of approximately $12,840,000 (at September 30, 2016 - $13,318,000) that can be applied against future years' taxable income for Canadian income tax purposes. The use of these losses expires at various dates between 2027 and 2036.

15. Expenses by nature

	nine months ended June 30 2017	nine months ended June 30 2016
	$	$
Materials	**24,883,322**	22,262,310
Wages and benefits	**9,040,532**	9,130,188
Subcontract fees	**4,786,507**	3,576,525
Rent, utilities and other property costs	**1,477,542**	1,297,668
Delivery	**1,335,016**	1,233,535
Data services, system maintenance, telecommunications and software licenses	**728,381**	669,415
Legal, bank, insurance and professional services	**480,604**	398,078
Advertising, marketing and other promotion costs	**352,599**	388,591
Other	**563,685**	461,485
	43,648,188	39,417,795
Direct expenses	**37,513,572**	33,243,377
General and administrative expenses	**6,134,616**	6,174,418
	43,648,188	39,417,795

16. Commitments and contingencies

(a) The Company is committed to minimum lease payments over the next five years with respect to the basic rent of business premises and equipment as follows:

	$
2017	398,840
2018	935,958
2019	921,082
2020	782,501
2021	550,072
Thereafter	-
	3,588,453

(Expressed in Canadian dollars)

16. Commitments and contingencies (continued)

(b) The Company has letters of credit outstanding at June 30, 2017 totaling $324,887 (at September 30 2016 - $324,887), the purpose of which is to provide a guarantee of the Company's performance on certain contracts.

17. Economic dependence

During the nine month period ended June 30, 2017, revenue from the Canadian military and other Canadian governmental agencies accounted for 36% of total revenue (June 30, 2016 - 25%) and revenue from an airline industry customer accounted for 15% of total revenue (June 30, 2016 - 22%).

18. Segmented information

The Company has two reportable operating segments, Peerless and UGL. While both segments are involved in the distribution and manufacture of garments and uniforms and the sale of product to government agencies and corporate entities in Canada, Peerless is primarily engaged in manufacturing products for government agencies while UGL is primarily involved in distributing products to corporate entities. The segments are separately managed for reporting purposes.

Performance is measured based on segment income before income taxes, as included in the internal management reports reviewed by the Company's chief operating decision maker. Management has determined that this measure is the most relevant in evaluating segment results.

				nine months ended June 30 2017
	Peerless	UGL	Eliminations adjustments and corporate expenses	**Total**
	$	$	$	**$**
Revenue	20,190,533	25,274,217	(2,328)	**45,462,422**
Direct expenses	15,927,861	21,588,039	(2,328)	**37,513,572**
General and administrative expenses	1,044,544	4,709,045	381,027	**6,134,616**
Depreciation and amortization	47,993	481,089	78,609	**607,691**
	3,170,135	(1,503,956)	(459,636)	**1,206,543**
Interest expense	157,664	58,868	394,863	**611,395**
Share based payment	-	-	221,155	**221,155**
Net income before income taxes	3,012,471	(1,562,824)	(1,075,654)	**373,993**
Capital expenditures on property, plant and equipment	20,107	193,846	-	**213,953**
Capital expenditures on intangible assets	-	417,326	-	**417,326**
Total assets	9,352,171	34,537,107	9,012,699	**52,901,977**
Intangible assets	-	1,469,262	-	**1,469,262**
Goodwill	-	647,942	2,586,000	**3,233,942**
Liabilities, excluding due to minority partner	4,158,800	28,169,424	8,350,622	**40,678,846**

(Expressed in Canadian dollars)

18. Segmented information (continued)

nine months ended
June 30
2016

	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	$	$	$	$
Revenue	11,825,733	27,858,395	(2,399)	39,681,729
Direct expenses	9,716,728	23,529,048	(2,399)	33,243,377
General and administrative expenses	939,471	4,860,437	374,510	6,174,418
Depreciation and amortization	39,329	434,270	109,730	583,329
	1,130,205	(965,360)	(484,240)	(319,395)
Interest expense	38,672	298,200	302,064	638,936
Share based payment	-	-	158,518	158,518
Net income before income taxes	1,091,533	(1,263,560)	(944,822)	(1,116,849)
Capital expenditures on property, plant and equipment	-	71,670	-	71,670
Capital expenditures on intangible assets	-	253,813	-	253,813
Total assets	10,523,995	21,898,947	6,222,254	38,645,196
Intangible assets	-	1,449,909	-	1,449,909
Goodwill	-	647,942	2,586,000	3,233,942
Liabilities, exluding due to minority partner	5,508,742	16,171,266	5,904,801	27,584,809

19. Subsequent event

On August 15, 2017, Carmin Garofalo, the Company’s President and Chief Executive Officer was removed from his positions and from the Company’s Board of Directors due to conflicts of interest and breach of his employment agreement. He has been replaced as President and Chief Executive Officer by Douglas Good, the Company’s Executive Chairman.