UNISYNC CORP.

Management Discussion and Analysis
For the six month period ended March 31, 2017

Prepared as at May 16, 2017

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the six month period ended March 31, 2017

BACKGROUND

The following discussion and analysis, prepared as of May 16, 2017, should be read together with the audited consolidated financial statements and the accompanying notes for the year ended September 30, 2016 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three and six month period ended March 31, 2017 prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, and actual results could vary considerably from these statements (see section headed “Forward-Looking Information”). Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to Unisync Corp. is available for view on SEDAR at www.sedar.com.

DESCRIPTION OF BUSINESS

Unisync Corp. is a British Columbia corporation and reporting issuer in British Columbia, Alberta, Manitoba and Ontario. Unisync’s voting Class B common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "UNI". Unisync Corp. and its subsidiaries are hereinafter referred to collectively as “Unisync” or the “Company”.

Unisync operates through two business segments: Unisync Group Limited (“UGL”) of Mississauga, Ontario and Peerless Garments LP (“Peerless”) of Winnipeg, Manitoba. Peerless specializes in the production and distribution of highly technical protective garments, military operational clothing and accessories for a broad spectrum of Federal, Provincial and Municipal government departments and agencies. UGL is a leading customer-focused provider of corporate apparel, serving a list of leading Canadian iconic brands such as Air Canada, Home Hardware, Loblaws, Purolator and TELUS.

Unisync’s goal is to make the process of ordering, receiving and wearing of apparel, related accessories and duty gear, a customer friendly experience. Unisync is a vertically integrated and Canadian enterprise with exceptional capabilities in garment design, domestic manufacturing and offshore outsourcing, combined with state-of-the-art web based B2B ordering, distribution and program management systems.

<u>Business Strategy</u>

Unisync is one of the largest broadly based independent uniform providers in Canada. The business strategy is to market the combined manufacturing and distribution capabilities of Unisync to secure additional accounts in the government and corporate sectors.

In addition, the Company intends to utilize these manufacturing and distribution platforms for expansion into other segments of the garment industry and/or to add established revenue producing businesses as profitable complimentary acquisition opportunities present themselves at accretive values. Building upon the acquisition of UGL in June 2014, Unisync acquired Carleton Uniforms Inc. (“Carleton”) of Carleton Place, Ontario in May 2015 and Omega Uniforms Systems Ltd. (“Omega”) of Vancouver, British Columbia in June 2015 to operate under the UGL segment. Carleton is a full service uniform provider specializing in work and dress wear for the Canadian Emergency Services sector while Omega is a western based supplier of corporate uniform programs, image apparel and custom uniforms.

RESULTS OF OPERATIONS

The following table sets out selected consolidated financial information for the previous three fiscal years. Due to the change in year end from November 30, to September 30, the results for the year ended September 30, 2014 are for a ten month period.

The results as at September 30, 2014 and for the ten month period ended September 30, 2014 were restated to recognize the $1,500,000 redemption amount of the put/call agreement with the minority partner of Peerless Garments LP as a current liability from the inception of the agreement in 2010. The operations of Carleton, Omega and UGL are included in the consolidated financial statements from the respective dates of each acquisition.

Fiscal years ended	**September 30, 2016**	**September 30, 2015**	**September 30, 2014 Restated 10 month period**
Consolidated statement of comprehensive loss data:			
Revenue	52,715,728	44,812,303	22,298,039
Direct expenses	44,195,387	36,928,178	17,725,663
General and administrative expenses	7,896,847	7,023,107	2,488,387
Depreciation	800,569	684,427	186,156
Interest expense	917,166	586,088	211,910
Impairment of Investment	-	-	1,205,488
Unrealized (gain) loss on marketable securities	-	-	(9,924)
Share-based payment	198,514	171,180	17,715
Net (loss) income before income taxes	(1,292,755)	(580,677)	472,644
Income tax (recovery) expense	(331,493)	(227,154)	493,426
Net (loss) income and total comprehensive (loss) income	(961,262)	(353,523)	(20,782)
Attributable to Unisync Corp. shareholders	(1,121,538)	(495,622)	(227,666)
Attributable to minority partner	160,276	142,099	206,884
Net (loss) income per share attributable to Unisync Corp. shareholders:			
Basic	(0.09)	(0.04)	(0.03)
Diluted	(0.09)	(0.04)	(0.03)
Supplemental data:			
EBITDA (1)	623,494	861,018	2,083,989
EBITDA as a % of revenue	1.2%	1.9%	9.3%
Consolidated statement of financial position data:			
Working capital, excluding shareholder advances, amount due to minority partner and term loan	6,893,772	4,765,787	6,659,967
Total assets	40,855,135	36,569,840	29,140,992
Other liabilities:			
Term loan	3,872,500	4,466,250	5,666,250
Shareholder advances	2,422,573	-	-
Deferred tax liabilities	758,721	799,882	732,982
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	10,413,661	10,179,858	9,709,999
Shareholder's equity - attributable to minority partner	(16,617)	(22,215)	(17,451)
Dividends paid	-	-	1,058,687

(1) EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment and impairment losses) is a non-GAAP financial measure. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. We have presented the nonGAAP measure of EBITDA because we believe that it is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.

Summary of Quarterly Results

(Canadian $'s) (000's), except per share data

The results for the quarters ending prior to September 30, 2015 have been restated to eliminate the previously included accretion of interest – minority partner expense. The results of Carleton have been included since its May 12, 2015 acquisition and the results of Omega have been included since its June 30, 2015 acquisition.

	6/30/2015 restated	09/30/2015	12/31/2015	03/31/2016	06/30/2016	09/30/2016	12/31/2016	03/31/2017
Revenue	10,972	12,030	13,393	13,743	12,546	13,034	14,539	13,618
Gross profit	1,886	1,765	2,466	1,846	1,544	1,864	2,346	2,012
General & administrative	1,681	2,332	2,198	1,987	1,989	1,723	1,913	2,015
Share based payment	201	(33)	74	56	29	39	76	73
Interest expense	146	125	156	240	243	278	231	201
Provision for taxes	(18)	(260)	26	(108)	(187)	(62)	36	(70)
Net income (loss) and comprehensive income (loss)	(124)	(399)	12	(329)	(530)	(114)	90	(207)
Income allocation to minority partner	22	9	26	38	44	52	80	76
Net income (loss) attributable to Unisync shareholders	(146)	(408)	(14)	(367)	(574)	(166)	10	(283)
Basic income (loss) per share	(0.01)	(0.03)	0.00	(0.03)	(0.05)	(0.01)	0.00	(0.02)
Diluted income (loss) per share	(0.01)	(0.03)	0.00	(0.03)	(0.05)	(0.01)	0.00	(0.02)
Supplemental data:								
EBITDA (1)	372	(378)	446	68	(250)	360	630	198
EBITDA %	3.4%	(3.1%)	3.3%	0.0%	(2.0%)	2.8%	4.3%	1.5%

(1) EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment and impairment losses) is a non-GAAP financial measure. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. We have presented the non-GAAP measure of EBITDA because we believe that it is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.

Results for the quarter ended March 31, 2017 versus the quarter ended March 31, 2016

Revenue for the three months ended March 31, 2017 of $13.6 million was down $0.1 million compared to the three months ended March 31, 2016 as a $1.5 million revenue increase in the Peerless segment was less than a $1.6 million revenue decrease in the UGL segment. Second quarter 2017 Peerless segment revenue of $5.5 million increased by 37% over the same period in the prior year when the Peerless segment was experiencing the impact of temporary production delays with the commencement of work on enhanced combat uniforms under options totalling $16.6 million exercised by the Department of National Defence ("DND") in late fiscal 2015. UGL segment revenue of $8.1 million in the second quarter of 2017 declined 17% from the corresponding quarter in 2016 as the segment's largest customer has curtailed spending on its existing uniform design in advance of its transition to a new uniform design with shipments beginning in the fourth quarter of 2017 and as the segment's second largest customer has moved to outfitting its employees in less expensive garments.

Gross profit for the three months ended March 31, 2017 was $2.0 million or 15% of revenue versus $1.8 million or 13% of revenue during the three months ended March 31, 2016. With the increase in revenue in the Peerless segment experienced in the current quarter, gross profit of $1.1 million increased by $0.4 million from the same period in the prior year and the Peerless segment's gross profit margin improved to 20% of revenue from 17% due to a higher margin product mix and a greater absorption of fixed overhead costs. The UGL segment recorded a gross profit of $0.9 million or 11% of segment revenue down from a gross profit of $1.2 million or 12% of segment revenue in the same quarter of the prior fiscal year. The decline in gross profit and gross profit margin was due to the lower absorption of fixed costs with the decrease in revenue experienced by the UGL segment in the most recent period.

General and administrative expenses of $2.0 million were unchanged from the amount incurred in the three months ended March 31, 2017 from the three months ended March 31, 2016.

Interest expense of $200,745 for the current quarter was down from $239,596 in the same period in fiscal 2016 on account of reduced borrowings in the UGL segment as it's working capital requirements were partially funded by customer deposits received against the cost of producing uniforms for the segment's largest customer's new uniform design.

The Company's reported net loss of $206,750 in the quarter ended March 31, 2017 was reduced from a loss of $328,506 in the comparable quarter last year for the reasons cited above. Cash flow from operations, before non-cash working capital items and distributions to minority partner, was $167,323 for the three months ended March 31, 2017 versus $68,228 for the three month period ended March 31, 2016. With the improved results in the Peerless segment, distributions to minority partner increased to $60,365 in the current quarter from $33,496 in the same period last year.

Business Trends

UGL has hedged the offshore production costs of its largest customer's new uniform design to begin shipping in the fourth quarter of 2017 and it is continuing to make product sourcing changes so the segment's margins are expected to improve through the balance of fiscal 2017 and into 2018. The combination of improved margins and increased absorption of fixed overhead costs associated with an increase in projected revenues from UGL's established and recently acquired accounts, is expected to result in greater profitability for the UGL segment over the rest of 2017and into 2018.

With $47 million in firm contracts and options on hand as at March 31 2017, up from $38 million as at the end of fiscal 2016, the Peerless business segment is well positioned for an increase in revenues and improved profitability in fiscal 2017 and 2018.

LIQUIDITY

Unisync has established two operating loan facilities totalling $18,500,000 from a Canadian chartered bank. The maximum amount available under the facilities is based on certain margin requirements and covenants as stipulated in the loan facility agreements.

In June 2014, Unisync obtained a $6.0 million term loan facility from a Canadian chartered bank to finance the acquisition of Unisync Group Limited. The facility is repayable by way of quarterly principal payments of $300,000 with an outstanding balance of $3.3 million as of the date of this MD&A.

During the year ended September 30, 2016, the Company received shareholder advances of $2,105,000. Interest and the processing fees on the advances are accrued and payable at the time of repayment of the principal amounts of the advances. Repayment of the principal amounts of the advances and the accrued interest and processing fees is due on March 15, 2018.

Excluding the due to the current portion of the term loan facility and the shareholder financing, Unisync had working capital of $6,500,195 and $6,893,772 at March 31, 2017 and September 30, 2016, respectively. As at March 31, 2017, the Company had foreign exchange contracts of US$5,800,000 (September 30, 2016 - nil) and letters of credit totalling $324,887 (September 30, 2016 - $324,887) outstanding along with operating loans of $7,571,260 (September 30, 2016: $14,166,150) under its two operating loan facilities. The amounts outstanding under the operating loan facilities increased by $854,262 during the quarter ended March 31, 2017 as a result of deposits made on the offshore production of the UGL segment's largest customer's new uniform production. The deposits received from the UGL segment's customers are recorded as deferred revenue and the deposits made on offshore production for those customers' new uniforms are recorded under prepaid expenses.

Capital expenditures on tangible and intangibles assets for the three months ended March 31, 2017 of $224,228 were up from $142,423 in the same period in the prior year. Capital expenditures primarily relate to the UGL segment's cost of tailoring its web based B2B ordering system to service the launch of new accounts. Capital expenditures for the Peerless segment are expected to be minimal in fiscal 2017 and the UGL segment is expected to incur an approximate $300,000 increase in capital expenditures primarily for new equipment and leasehold improvements at its Guelph distribution centre following the July 2016 five year lease extension on that facility.

Since the acquisition of UGL, Unisync has suspended dividend payments due to capital requirements from acquisitions and increased business volume. At a later date, Unisync will reconsider its dividend policy.

SHARE CAPITAL

The following table sets out the share capitalization of the Company as at December 31, 2016 and the date of this MD&A.

Description	Authorized	Outstanding as at March 31, 2017	Outstanding as at the date of this MD&A
Class B common voting shares	Unlimited	13,337,698	13,337,698
Stock Options – Class B	1,333,770	1,155,000	1,286,000
Class A Preferred Shares	Unlimited in series	Nil	Nil

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than letters of credit granted in the ordinary course as set out in the Section headed "Liquidity".

CRITICAL ACCOUNTING ESTIMATES

Measurement Uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas of estimates and judgments are listed in Note 4 to the condensed interim consolidated financial statements and include but are not limited to the recognition of deferred income taxes, costing allocations of labour and overhead for inventories, the estimated useful lives of property, plant and equipment, recording of accrued liabilities and contingencies, due to minority partner, valuation of investments, valuation of receivables and inventory obsolescence, valuation of goodwill and share based payments and the allocation of purchase consideration on the acquisition of businesses. Actual results could differ from these estimates.

CHANGE IN ACCOUNTING POLICIES

Accounting standards issued but not yet applied

The reader is referred to Note 3 to the condensed interim consolidated financial statements for a summary of new standards which will be effective for future years. The Company is in the process of assessing the impact of these new standards.

FORWARD-LOOKING INFORMATION

This Management Discussion and Analysis contains forward-looking information. Specific forward-looking statements included or incorporated by reference in this document include, but are not limited to, statements with respect to:

- the Company’s plan to expand into other segments of the garment industry and/or to add established revenue producing businesses as stated in the Business Strategy section;
- the Company’s view that the Government of Canada will increase its purchasing of garments from the Peerless segment at current or better margins and that the UGL segment will increase its market share while experiencing improving margins as outlined in the Business Trends section;
- the forecast that customer deposits received will be used to complete offshore production of uniforms that are expected to be shipped later in 2017 and in 2018 in the Liquidity section;

Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “believes”, “anticipates” or “does not anticipate”, or variations of such words and phrases or states that certain actions, events, or results “may”, “could”, “would”, “might”, “will be taken”, “occur”, or “be achieved”. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Unisync to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Although Unisync has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

Known and unknown factors could cause actual results or events to differ materially from those projected in the forward-looking statements. Such material factors include, but are not limited to competition, operational risk, litigation, a change in the timing or bidding conditions of future government contracts, customer concentration/economic dependence, working capital, potential conflicts of interest, volatility of stock price, disruptions in production, government budgetary restraint, reliance on key personnel, reliance on few suppliers, reliance on subcontractors, technological milestones, operating cost fluctuations, increases in interest rates, decreases in the value of the Canadian dollar against the U.S. dollar and other foreign currencies, access to credit, and potential unknown liabilities. Accordingly, readers should not place undue reliance on forward-looking information. Unisync does not undertake any obligation to update forward-looking information except as otherwise required by law.

RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2017, interest and processing fees of $39,196 (March 31, 2016 – $38,677) were accrued on $792,500 of shareholder advances that were provided by Bruce Aunger, Darryl Eddy, Douglas Good, and Michael O'Brian, members of the Company's board of directors. Albert El Tasi, the Company's minority partner in the Peerless segment received an income allocation of $75,713 (March 31, 2016 - $38,374) and the Company paid rent of $10,500 (March 31, 2016 - $10,500) for the Company's facility in Carleton Place, Ontario to a corporation which is owned by Terry Perkins, the former owner and continuing Vice President of UGL.

Related party transactions are recorded at the exchange amounts, which are the amounts agreed upon by the related parties.

INVESTOR RELATIONS

Investor relations inquiries are handled by the Company's Chief Executive Officer.

Venture Liquidity Providers Inc. ("VLP") provides market-making service and maintains an orderly trading market for the shares of the Company. The service is provided through a registered broker, W.D. Latimer Co. Ltd., in compliance with the applicable policies of the TSX Venture Exchange and other applicable laws. The Company and VLP act at arm's length, and VLP has no present interest, directly or indirectly, in the Company or its securities. The finances and the shares required for the market-making service are provided by W.D. Latimer. The fee paid by the company to VLP is for services only.