# *UNISYNC CORP.*

**Management Discussion and Analysis**
**For the year ended September 30, 2016**

**Prepared as at January 13, 2017**

**MANAGEMENT DISCUSSION AND ANALYSIS OF**
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**For the year ended September 30, 2016**

## BACKGROUND

The following discussion and analysis, prepared as of January 13, 2017, should be read together with the audited consolidated financial statements and the accompanying notes for the years ended September 30, 2016 and September 30, 2015 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, TELUS, Loblaws and Purolator.

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.

*Business Strategy*

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.

**Results for the years ended September 30, 2016 and September 30, 2015**

Revenue for the year ended September 30, 2016 of $52.7 million increased by $7.9 million or 18% from the prior year as both the Peerless and UGL segments experienced growth. Peerless segment revenue of $16.7 million increased by $1.7 million or 12% over the prior year when temporary production delays occurred with the commencement of work on advanced combat uniforms. Current year revenue was also boosted by the commencement of production on the new cold weather parkas contract during the fourth quarter. UGL segment revenue of $36.0 million rose $6.2 million or 21% over fiscal 2015 on account of a full year's contribution from the Carleton and Omega acquisitions, adding $4.7 million in additional revenue, and with a full year's sales to Air Canada, the segment's largest customer, under a contract that began in December 2014.

Gross profit of $7.7 million increased by $0.5 million or 7% year over year but declined to 15% as a percentage of revenue from 16% in the prior year. The Peerless segment experienced a $0.2 million or 8% increase in gross profit with the segment's growth in revenue while the segment's gross profit margin remained unchanged at 18% of revenue. The UGL segment recorded a $0.3 million or 6% rise in gross profit but the segment's gross profit margin declined from 16% to 14% because of the impact of the 9% weakening of the average rate of exchange between the Canadian dollar and the US dollar ("US$") on UGL's purchase of product denominated in US$ from overseas suppliers during the year

General and administrative expenses increased by $0.9 million or by 12% to $7.9 million for the year ended September 30, 2016 from the previous year but as a percentage of revenue fell from 16% to 15% with the greater absorption of fixed overhead costs. General and administrative expenses of $1.3 million in the Peerless segment were flat against fiscal 2015. The UGL segment's general and administrative expenses grew by $1.2 million or 26% to $6.1 million on account of a full year's inclusion of Carleton's and Omega's results. Corporate general and administrative expenses declined by $0.3 million from the prior year when acquisition activity and corporate restructuring costs were incurred.

Share based payment expense increased by $27,334 from fiscal 2015 to $198,514 in fiscal 2016.

Interest expense of $917,166 for the year ended September 30, 2016, increased by $331,078 from the prior year due to greater utilization of the operating loan facilities provided to the Peerless and UGL segments by a Canadian chartered bank and due to higher borrowing costs on shareholder advances of $2.1 million lent to the Company in the current fiscal year to finance the growing working capital requirements of the UGL segment. Interest and the processing fees on the advances are accrued and payable at the time of repayment of the principal amounts of the advances.

The Company reported a net loss $1,292,755 in the year ended September 30, 2016 compared to a loss of $353,523 in the year before. Cash flow from operations, before non-cash working capital items and distributions to minority partner, was $562,770 for the year ended September 30, 2016 down from $854,696 in fiscal 2015. Distributions to the 10% minority partner of the Peerless segment increased to $154,678 in the current year, up from $146,863 last year.

## 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 Unisync Group Limited have been included from the June 30, 2014 date of acquisition. 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.

| | 12/31/2014 restated | 3/31/2015 restated | 6/30/2015 restated | 09/30/2015 | 12/31/2015 | 03/31/2016 | 06/30/2016 | 09/30/2016 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 10,426 | 11,384 | 10,972 | 12,030 | 13,393 | 13,743 | 12,546 | 13,034 |
| Gross profit | 1,908 | 1,641 | 1,886 | 1,765 | 2,466 | 1,846 | 1,544 | 1,864 |
| General & administrative | 1,643 | 1,367 | 1,681 | 2,332 | 2,198 | 1,987 | 1,989 | 1,723 |
| Share based payment | 3 | - | 201 | (33) | 74 | 56 | 29 | 39 |
| Interest expense | 139 | 177 | 146 | 125 | 156 | 240 | 243 | 278 |
| Provision for taxes | 28 | 23 | (18) | (260) | 26 | (108) | (187) | (62) |
| Net income (loss) and comprehensive income (loss) | 95 | 74 | (124) | (399) | 12 | (329) | (530) | (114) |
| Income allocation to minority partner | 51 | 60 | 22 | 9 | 26 | 38 | 44 | 52 |
| Net income (loss) attributable to Unisync shareholders | 44 | 14 | (146) | (408) | (14) | (367) | (574) | (166) |
| Basic income (loss) per share | 0.00 | 0.00 | (0.01) | (0.03) | 0.00 | (0.03) | (0.05) | (0.01) |
| Diluted income (loss) per share | 0.00 | 0.00 | (0.01) | (0.03) | 0.00 | (0.03) | (0.05) | (0.01) |
| Supplemental data: | | | | | | | | |
| EBITDA (1) | 428 | 439 | 372 | (378) | 446 | 68 | (250) | 360 |
| EBITDA % | 4.1% | 3.8% | 3.4% | (3.1%) | 3.3% | 0.0% | (2.0%) | 2.8% |

(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.

### *Results for the quarter ended September 30, 2016 versus the quarter ended September 30, 2015*

Revenue for the three months ended September 30, 2016 of $13.0 million increased by $1.0 million over the three months ended September 30, 2015 as a $2.5 million revenue increase in the Peerless segment more than offset a $1.5 million revenue decrease in the UGL segment. Fourth quarter 2016 Peerless segment revenue of $4.8 million increased by 103% over the same period in the prior year when the

Peerless segment was experiencing the impact of ongoing delays in the exercise of outstanding options by the Department of National Defence ("DND"). UGL segment revenue of $8.2 million in the fourth quarter of 2016 declined 15% from the corresponding quarter in 2015 as a number of customers reduced demand for uniforms in the wake of the Fort McMurray wildfires and curtailed oil production in Western Canada combined with a general slowdown in the Canadian economy.

Gross profit for the three months ended September 30, 2016 was $1.9 million or 14% of revenue versus $1.8 million or 15% of revenue during the three months ended September 30, 2015. With the increase in revenue in the Peerless segment experienced in the current quarter, gross profit increased by $0.5 million from the same period in the prior year and the Peerless segment's gross profit margin improved to 18% of revenue from 16%. The UGL segment recorded a gross profit of $1.0 million or 12% of segment revenue down from a gross profit of $1.4 million or 14% of segment revenue in the same quarter of the prior fiscal year. The decline in gross profit and gross profit margin was due to impact of the weakening Canadian dollar on US$ offshore product purchases and 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 decreased by $0.6 million in the three months ended September 30, 2016 from the three months ended September 30, 2015. Comparing fourth quarter 2016 to 2015, general and administrative expenses were down $0.1 million in the Peerless segment, down $0.4 million in the UGL segment on account of staff reductions, lower sales commissions and an information technology support cost recovery and Corporate expenses were down $0.1 million from the prior year when acquisition activity and corporate restructuring costs were incurred.

Interest expense of $278,230 for the current quarter was up from $124,574 in the same period in fiscal 2015 on account of greater operating loan utilization by the UGL segment to finance the effect of increased sales volume on working capital and higher borrowing costs on subordinated shareholder loans of $2.1 million advanced to the Company in the current fiscal year.

The Company's reported net loss of $114,760 in the quarter ended September 30, 2016 was down from a net loss of $399,917 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 $358,780 for the three months ended September 30, 2016 versus negative $377,564 for the three month period ended September 30, 2015. With the improved results in the Peerless segment, distributions to minority partner increased to $61,905 in the current quarter from $5,433 in the same period last year.

***Business Trends***

Peerless ended the 2016 fiscal year with approximately $38 million in firm contracts and options on hand with various departments of the Government of Canada. Historically, the DND has exercised in excess of 80% of options granted to Peerless as prime contractor. In the months leading up to the October 2015 Federal election, Unisync encountered some delays and policy changes from Public Works and Government Services Canada ("PWGS") in the exercise of options which made it difficult to maintain a consistent flow of monthly contract deliverables as prime contractor. Over the past two years, the DND had also slowed progress on the implementation of some new projects, which has placed further pressure on many domestic garment manufacturers and suppliers of textiles and value added processors. This trend appears to be reversing as evidenced by the exercise of the $16.6 million in options for combat gear in the fourth quarter of fiscal 2015, the $12.1 million parka contract secured early in fiscal 2016, the $11.2 million rain suit contract finalized in June 2016 and the $18.2 million enhanced combat uniforms contract received in December 2016.

Gross profit margins can vary between contracts depending on the nature of the contract, the subcontracted portion and the competitive landscape at the time. The Company believes that gross margins experienced in recent years by the Peerless segment fixed overheads have levelled off and that margins should continue to improve through fiscal 2017 and into 2018.

As evidenced by the October 2014 assumption of the Mississauga Outlet Store previously operated by R. Nicholls and the acquisitions of Carleton and Omega, the UGL segment is seeing rationalization of its competition and opportunities to expand its market share. Gross profit margins for the UGL segment will continue to experience some short term down turn due to the impact on the costs of offshore purchases caused by the rapid decline of the Canadian dollar against the US dollar. However with the exchange rate stabilizing in a more narrow range, the UGL segment believes that it will be able to adjust selling prices and costs due to Unisync's industry leading service offering and strong supplier relationships.

## 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 that began on September 30, 2014. The bank agreed to defer the quarterly principal payments of $300,000 due on each of June 30, 2016 and September 30, 2016. The quarterly principal payments of $300,000 resumed on December 31, 2016 leaving an outstanding balance of $3.6 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 was due on October 15, 2016 but subsequent to September 30, 2016 the maturity date of the advances was extended to March 15, 2017.

Excluding the due to minority partner amount, the term loan facility amount and the shareholder financing, Unisync had working capital of $6,893,772 and $4,765,787 at September 30, 2016 and September 30, 2015, respectively. As at September 30, 2016 the Company had letters of credit totalling $324,887 (September 30, 2015 - $324,887) outstanding along with operating loans of $14,166,150 (September 30, 2015: $12,829,402) under its two operating loan facilities.

Capital expenditures on tangible and intangibles assets for the year ended September 30, 2016 were $440,888 reduced from $1,358,466 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 September 30, 2016 and the date of this MD&A.

| Description | Authorized | Outstanding as at September 30, 2016 | Outstanding as at the date of this MD&A |
|---|---|---|---|
| Class B common voting shares | Unlimited | 13,287,698 | 13,337,698 |
| Stock Options – Class B | 1,328,770 | 985,000 | 1,275,000 |
| 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 5 to the consolidated financial statements and include but are not limited to the inventory 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 4 to the 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 capital expenditures will be higher in 2017 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 year ended September 30, 2016, interest and processing fees of $119,550 (2015 – nil) 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 $160,276 (2015 - $142,099) and the Company paid rent of $42,000 (2015 - $24,960) 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.