

Consolidated financial statements of

**Unisync Corp.**

September 30, 2017 and 2016

# Unisync Corp.

September 30, 2017 and 2016

## Table of contents

Independent Auditor's Report.....	1-2
Consolidated statements of comprehensive loss .....	3
Consolidated statements of financial position .....	4
Consolidated statements of changes in equity .....	5
Consolidated statements of cash flows .....	6
Notes to the consolidated financial statements .....	7-30

## Independent Auditors' Report

To the Shareholders of Unisync Corp.:

We have audited the accompanying consolidated financial statements of Unisync Corp., which comprise the consolidated statement of financial position as at September 30, 2017 and 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *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 International Financial Reporting Standards, 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.

### *Auditors' 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 audits 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 auditors' 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.

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 Unisync Corp. as at September 30, 2017 and 2016, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

December 14, 2017



Chartered Professional Accountants

# Unisync Corp.

## Consolidated statements of comprehensive income (loss) Years ended September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
Revenue	65,572,476	52,715,728
Direct expenses (Note 16)	53,947,042	44,195,387
General and administrative expenses (Note 16)	8,100,386	7,896,847
Depreciation and amortization	867,626	800,569
	2,657,422	(177,075)
Interest expense	952,688	917,166
Share-based payment (Note 14)	272,104	198,514
Net income (loss) before income taxes	1,432,630	(1,292,755)
Income tax expense (recovery) (Note 15)	358,897	(331,493)
<b>Net income (loss) and total comprehensive income (loss)</b>	<b>1,073,733</b>	<b>(961,262)</b>
<b>Attributable to</b>		
Unisync Corp. shareholders	689,022	(1,121,538)
Minority partner	384,711	160,276
	1,073,733	(961,262)
<b>Net income (loss) per share attributable to Unisync Corp. shareholders</b>		
Basic	0.05	(0.09)
Diluted	0.05	(0.09)
<b>Weighted average number of shares (Note 14(e))</b>	<b>13,333,177</b>	<b>12,708,943</b>
<b>Diluted weighted number of shares outstanding (Note 14(e))</b>	<b>13,421,724</b>	<b>12,803,135</b>

# Unisync Corp.

## Consolidated statements of financial position

As at September 30, 2017 and 2016

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash	604,903	60,828
Trade and other receivables (Note 21)	9,250,507	7,576,332
Inventory (Note 6)	35,859,148	19,633,998
Prepaid expenses	2,819,025	2,140,709
	<b>48,533,583</b>	<b>29,411,867</b>
Non-current assets		
Cash surrender value of life insurance policy	84,221	83,281
Property, plant and equipment (Note 7)	4,082,075	4,113,473
Deferred tax asset (Note 15)	1,986,548	2,639,811
Intangible assets (Note 8)	1,456,439	1,372,761
Goodwill (Note 9)	3,233,942	3,233,942
	<b>59,376,808</b>	<b>40,855,135</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan (Note 10)	14,043,005	14,166,150
Trade payables and accrued liabilities (Note 21)	4,437,649	4,289,669
Provision for income taxes (Note 15)	723,287	1,048,677
Deferred revenue (Note 21)	21,463,620	2,832,175
Current portion of term loan (Note 10)	1,425,206	1,200,000
Current portion of note payable (Note 11)	144,924	181,424
Shareholder advances (Note 12)	2,928,001	2,422,573
	<b>45,165,692</b>	<b>26,140,668</b>
Non-current liabilities		
Term loan (Note 10)	1,257,294	2,672,500
Note payable (Note 11)	-	144,923
Due to minority partner (Note 13)	1,500,000	1,500,000
	<b>47,922,986</b>	<b>30,458,091</b>
Commitments and contingencies (Note 17)		
<b>Equity</b>		
Share capital (Note 14)	11,689,743	11,599,743
Share-based payment reserve	910,335	638,231
Deficit	(1,135,291)	(1,824,313)
Equity attributable to Unisync Corp. shareholders	11,464,787	10,413,661
Deficit attributable to minority partner	(10,965)	(16,617)
	<b>11,453,822</b>	<b>10,397,044</b>
	<b>59,376,808</b>	<b>40,855,135</b>

Approved by the Board

(Signed) Douglas F. Good

, Douglas F. Good, Director

(Signed) Bruce W. Aunger

, Bruce W. Aunger, Director

# Unisync Corp.

## Consolidated statements of changes in equity Years ended September 30, 2017 and September 30, 2016 (Expressed in Canadian dollars)

	Shares	Capital stock Amount	Share- based payment reserve	Deficit	Equity attributable to Unisync Corp. shareholders	Minority Interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance,</b>							
<b>September 30, 2015</b>	<b>12,604,198</b>	<b>10,442,354</b>	<b>440,279</b>	<b>(702,775)</b>	<b>10,179,858</b>	<b>(22,215)</b>	<b>10,157,643</b>
Shares issued for cash (Note 14 (d))	500,000	973,327	-	-	973,327	-	973,327
Shares issued on exercise of stock options (Note 14 (c))	183,500	184,062	(562)	-	183,500	-	183,500
Share-based payment	-	-	198,514	-	198,514	-	198,514
Distribution to minority partner	-	-	-	-	-	(154,678)	(154,678)
Net loss and total comprehensive loss	-	-	-	(1,121,538)	(1,121,538)	160,276	(961,262)
<b>Balance,</b>							
<b>September 30, 2016</b>	<b>13,287,698</b>	<b>11,599,743</b>	<b>638,231</b>	<b>(1,824,313)</b>	<b>10,413,661</b>	<b>(16,617)</b>	<b>10,397,044</b>
Shares issued on exercise of stock options (Note 14 (c))	50,000	90,000	-	-	90,000	-	90,000
Share-based payment	-	-	272,104	-	272,104	-	272,104
Distribution to minority partner	-	-	-	-	-	(379,059)	(379,059)
Net income and total comprehensive income	-	-	-	689,022	689,022	384,711	1,073,733
<b>Balance,</b>							
<b>September 30, 2017</b>	<b>13,337,698</b>	<b>11,689,743</b>	<b>910,335</b>	<b>(1,135,291)</b>	<b>11,464,787</b>	<b>(10,965)</b>	<b>11,453,822</b>

# Unisync Corp.

## Consolidated statements of cash flows

Years ended September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net income (loss)	1,073,733	(961,262)
Adjustments for:		
Interest expense	952,688	917,166
Income tax expense (recovery)	358,897	(331,493)
Income taxes paid	(31,024)	(61,783)
Depreciation and amortization	867,626	800,569
Loss on disposal of property, plant and equipment	5,023	-
Proceeds on disposal of property, plant and equipment	-	5,127
Increase in cash surrender value of life insurance	(940)	(4,068)
Share-based payment	272,104	198,514
	<b>3,498,107</b>	<b>562,770</b>
Changes in non-cash working capital items		
Trade and other receivables	(1,674,175)	(1,056,175)
Inventory	(16,225,150)	(3,284,462)
Prepaid expenses	(678,316)	(330,960)
Trade payables and accrued liabilities	147,980	(19,713)
Provision for income taxes	-	(731)
Deferred revenue	18,631,445	1,342,330
	<b>3,699,891</b>	<b>(2,786,941)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(379,949)	(118,218)
Purchase of intangible assets	(544,980)	(322,670)
	<b>(924,929)</b>	<b>(440,888)</b>
<b>Financing activities</b>		
(Decrease) increase in operating loan	(123,145)	1,336,748
Term loan repayments	(1,200,000)	(600,000)
Shareholder advances	-	2,105,000
Note payment	(181,423)	(167,841)
Interest paid	(437,260)	(593,343)
Distributions to minority partner	(379,059)	(154,678)
Proceeds on issuance of shares	-	973,327
Proceeds on exercise of stock options	90,000	183,500
	<b>(2,230,887)</b>	<b>3,082,713</b>
Net cash inflows (outflows)	<b>544,075</b>	<b>(145,116)</b>
Cash, beginning of year	<b>60,828</b>	<b>205,944</b>
<b>Cash, end of year</b>	<b>604,903</b>	<b>60,828</b>

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 1. Nature of business and basis of presentation

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. The Peerless segment includes the Company's 90% interest in the business of Winnipeg-based Peerless Garments LP ("Peerless") and 100% of Peerless Garments Inc. ("GP"), the general partner. Peerless manufactures harsh weather outerwear for the Canadian military and other government agencies. The UGL segment comprises the Company's 100% interest in Mississauga-based York Uniforms Holdings Limited ("York Holdings"), its wholly owned subsidiary, Unisync Group Limited and its wholly owned subsidiaries, Carleton Uniforms Inc. ("Carleton") and Omega Uniforms Systems Ltd. ("Omega"). UGL is a designer, manufacturer and distributor of direct sale uniforms, workwear, image apparel and related solutions. UGL operates distribution centres in Guelph, Ontario and Winnipeg, Manitoba and in Carleton Place, Ontario and Vancouver, British Columbia.

These consolidated financial statements including comparatives have been prepared in accordance with accounting policies in full compliance with International Financial Reporting Standards ("IFRS") effective on September 30, 2017.

The consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on December 14, 2017.

### 2. Significant accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

#### (a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities at fair value.

#### (b) Principles of consolidation

##### Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company reassesses control on an ongoing basis. Subsidiaries are consolidated from the date on which the Company obtains control until the date that such control ceases.

The financial statements of subsidiaries are prepared with the same reporting period of the Company. All significant inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated in preparing the consolidated financial statements.

##### Minority partner

The due to minority partner presented as a component of liabilities is as a result of a put/call agreement between the Company and the minority partner as described in note 13. The deficit attributable to minority partner recognized in equity represents the minority partner's share of Peerless' net income and comprehensive income less distributions to the minority partner.



# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (c) Foreign currency

##### Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the statement of comprehensive loss.

#### (d) Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the selling price is fixed or determinable and when collection is reasonably assured.

#### (e) Deferred revenue

Deferred revenue relates to payments received on account of services to be rendered in the future or deposits on products to be delivered.

#### (f) Income taxes

Income tax expense comprises current and deferred income tax expense. Income taxes are recognized in the statement of comprehensive loss except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible, and adjusted for amendments to tax payable with regards to previous years. Current tax is calculated using tax rates and laws that were substantively enacted at the date of the statement of financial position.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and deferred tax assets are derecognized to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are recognized for all taxable temporary differences except where the deferred tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (g) Cash

Cash comprises cash on hand, in the bank and demand deposits with an original maturity at the date of purchase of three months or less.

#### (h) Inventory

Inventory consists of raw materials, work in progress and finished goods. These amounts are stated at the lower of cost and net realizable value.

Costs are assigned to inventory quantities on hand at the statement of financial position date using the first in, first out cost in the Peerless segment and on a weighted average cost basis in the UGL segment. Cost comprises material, labour and an appropriate proportion of fixed and variable overheads. Net realizable value is the estimated selling price in the ordinary course of the business less the estimated cost of completion and the estimated cost necessary to make the sale.

#### (i) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. Costs directly attributable to the acquisition or construction of property, plant and equipment, including labour and interest, are also capitalized as part of the cost.

Repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred. Upon retirement, disposal or destruction of an asset, the cost and related amortization are removed from the accounts and any gain or loss is included in the statement of comprehensive loss.

#### Depreciation

Depreciation is based on estimated useful lives of the assets and is provided for using the following annual rates and methods:

Buildings	5% declining balance
Warehouse and manufacturing equipment	20% declining balance
Computer equipment	20% straight line
Office furnishings and equipment	20% declining balance
Vehicles	30% declining balance
Leasehold improvements	20% straight line

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component.

The assets' residual values, method of depreciation and useful lives are reviewed and adjusted, if appropriate, at least annually.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive loss.

#### Impairment

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment charge is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairments to property, plant and equipment are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized that suffer impairment are evaluated for possible reversal of the impairment when events or circumstances warrant such consideration.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (j) Intangible assets

Upon acquisition, identifiable intangible assets are recorded at fair value. The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

Intangible assets with definite useful lives consist of the acquisition cost of customer relationships and computer software. Amortization is provided for on a straight-line basis over 5 - 7 years, which is the estimated useful life of the asset. These assets are tested for impairment if events or circumstances indicate that the assets might be impaired.

#### (k) Leases

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments, excluding contingent payments, are charged to expense on a straight-line basis over the period of the lease term unless another systematic basis is more representative of the time pattern of the Company's benefit.

#### (l) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as determined at the date of acquisition of the business less any impairment losses. For the purposes of impairment testing, the goodwill is allocated to the cash-generating unit ("CGU") that is expected to benefit from the synergies of the business combination.

Goodwill is tested for impairment annually, or more frequently when there is an indicator of impairment. If the recoverable amount of the CGU, which is the greater of the value-in-use and the fair value less costs to sell, is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit on a pro rata basis based on the carrying value of the assets in the CGU. Any impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of a CGU, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

#### (m) Provisions

Provisions for restructuring costs and legal claims, where applicable, are recognized when the Company has a legal, equitable or constructive obligation to make a future outflow of economic benefits to others as a result of past transactions or past events, it is probable that a future outflow of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date using a discounted cash flow methodology. Provisions are not recognized for future operating losses.

#### (n) Share-based payment

The fair value of options granted under the stock option plan is recognized as compensation expense with a corresponding increase in share-based payment reserve within the Company's equity. The fair value is measured at the grant date and recognized over the period during which the options vest. Each tranche in an award is considered as a separate award with its own vesting period and grant date fair value.

The fair value at the grant date is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected forfeiture rate is estimated annually based on historical forfeiture rates and expectations of future forfeiture rates.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

#### (p) Earnings per share

##### Basic earnings per share

Basic earnings per share is calculated by dividing net income or loss attributable to equity holders of the Company, excluding any costs to service equity other than common shares, by the weighted average number of common shares outstanding during the period.

##### Diluted earnings per share

Diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the reporting period, if dilutive. For this purpose, the number of additional shares is calculated using the assumed proceeds upon the exercise of stock options and share purchase warrants that are used to purchase common shares at the average market price during the period.

#### (q) Financial instruments

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

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

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

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The only instrument held by the Company classified in this category is the cash surrender value of a life insurance policy.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive loss.

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value with gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive loss as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of comprehensive loss and are included in other gains and losses. The Company has no financial instruments designated as available-for-sale.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (q) Financial instruments (continued)

- (iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash, and trade and other receivables, and are included in current assets due to their short-term nature.

Loans and trade and other receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and trade and other receivables to fair value. Subsequently, loans and trade and other receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables and accrued liabilities, operating loan, current and long-term portions of the term loan and note payable. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to carrying value. Subsequently, trade payables and accrued liabilities are measured at amortized cost using the effective interest method. The operating line loan and current and long-term portions of the term loan and note payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

#### (r) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale financial assets are not reversed through net loss, but subsequent gains and losses are recorded in other comprehensive income.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 3. Changes in accounting standards

In May 2014, the IASB issued amendments to IFRS11 to clarify that the acquirer of an interest in a joint operation is required to apply all of the principles of business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments were applied prospectively for annual periods beginning on or after January 1, 2016.

In December 2014, the International Accounting Standards Board (IASB) issued amendments to IAS 1 to clarify that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments were effective for annual periods beginning on or after January 1, 2016. Also in December 2014, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28 to clarify the requirements when accounting for investment entities. The amendments were effective for annual periods beginning on or after January 1, 2016.

The adoption of these amendments had no effect on the Company's consolidated financial statements.

### 4. Accounting standards issued but not yet applied

The Company has not early adopted the following new and amended standards:

#### *IAS 7 – Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7 that require entities to provide improved disclosures regarding changes in financing liabilities. The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted.

#### *IAS 12 – Income Taxes*

In January 2016, the IASB issued amendments to IAS 12 to clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted.

#### *IAS 28 - Investments in Associates and Joint Ventures*

In December 2016, the IASB issued amendments to IAS 28 to clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

#### *IAS 40 - Investment Property*

In December 2016, the IASB issued amendments to IAS 40 to clarify transfers of property to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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#### 4. Accounting standards issued but yet applied (continued)

##### *IFRS 2 – Share-based Payment*

In June 2016, the IASB issued amendments to IFRS2 to clarify how to account for the effect of vesting and non-vesting conditions on measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

##### *IFRS 9 - Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

##### *IFRS 12 - Disclosure of Interests in Other Entities*

In December 2016, the IASB issued amendments to IFRS 12 resulting from Annual Improvements 2014–2016 Cycle (clarifying scope). The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted.

##### *IFRS 15 - Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

In April 2016, IASB issued amendments to IFRS 15 to clarify how to identify a performance obligation in a contract, to determine whether a company is a principal or an agent and to determine over what period revenue should be recognized from granting a license.

IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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#### 4. Accounting standards issued but yet applied (continued)

##### *IFRS 16 - Leases*

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16), which replaces IAS 17, Leases (IAS 17) and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019, early adoption is permitted.

##### *IFRS 17 – Insurance Contracts*

In May 2017, the IASB issued IFRS 17, Insurance Contracts (IFRS 17) to establish the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 applies to annual reporting periods beginning on or after 1 January 2021.

The Company is currently assessing the impact of these new standards on its consolidated financial statements.

#### 5. Critical accounting estimates and judgments

The preparation of the 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 14). The fair value of entitlements is determined in accordance with the accounting policy in Note 2(n). 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.



# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 5. Critical accounting estimates and judgments (continued)

#### (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 intangible asset, and the appropriate discount rate. During the years ended September 30, 2017 and September 30, 2016, the Company's intangible assets were determined to not be impaired.

#### (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. During the years ended September 30, 2017 and September 30, 2016, the Company's goodwill was determined to not be impaired.

#### (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.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 6. Inventory

	2017	2016
	\$	\$
Raw materials	3,475,405	4,168,773
Work in process	1,543,804	1,905,743
Finished goods	30,839,939	13,559,482
	<b>35,859,148</b>	<b>19,633,998</b>

Cost of inventories recognized as an expense during the year ended September 30, 2017 amount to \$45,210,531 (2016 - \$36,076,098). During the year ended September 30, 2017, inventory was written down by \$556,689 (2016 - \$306,939) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value was \$639,813 at September 30, 2017 (2016 - \$400,216), with the remaining inventory recorded at cost.

### 7. Property, plant and equipment

	2017							
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
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	-	-	158,352	74,483	18,211	94,894	34,009	379,949
Disposals	-	-	-	-	-	(65,813)	(49,750)	(115,563)
Balance at September 30, 2017	<b>422,730</b>	<b>2,695,000</b>	<b>1,602,366</b>	<b>658,330</b>	<b>114,089</b>	<b>109,570</b>	<b>341,853</b>	<b>5,943,938</b>
<i>Accumulated depreciation</i>								
Balance at September 30, 2016	-	354,355	582,365	376,253	44,161	56,662	152,283	1,566,079
Depreciation	-	58,516	183,878	49,588	10,515	23,737	80,090	406,324
Disposals	-	-	-	-	-	(60,790)	(49,750)	(110,540)
Balance at September 30, 2017	-	<b>412,871</b>	<b>766,243</b>	<b>425,841</b>	<b>54,676</b>	<b>19,609</b>	<b>182,623</b>	<b>1,861,863</b>
<i>Net carrying amount</i>								
At September 30, 2017	<b>422,730</b>	<b>2,282,129</b>	<b>836,123</b>	<b>232,489</b>	<b>59,413</b>	<b>89,961</b>	<b>159,230</b>	<b>4,082,075</b>
	2016							
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2015	422,730	2,695,000	1,392,557	553,347	95,878	80,489	327,517	5,567,518
Property plant and equipment	-	-	57,641	30,500	-	-	30,077	118,218
Disposals	-	-	(6,184)	-	-	-	-	(6,184)
Balance at September 30, 2016	<b>422,730</b>	<b>2,695,000</b>	<b>1,444,014</b>	<b>583,847</b>	<b>95,878</b>	<b>80,489</b>	<b>357,594</b>	<b>5,679,552</b>
<i>Accumulated depreciation</i>								
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	-	<b>354,355</b>	<b>582,365</b>	<b>376,253</b>	<b>44,161</b>	<b>56,662</b>	<b>152,283</b>	<b>1,566,079</b>
<i>Net carrying amount</i>								
At September 30, 2016	422,730	2,340,645	861,649	207,594	51,717	23,827	205,311	4,113,473

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 8. Intangible assets

				2017
				\$
	Computer software	Intangible assets from Carleton acquisition	Standards certification	Total
<i>Cost</i>				
Balance at September 30, 2016	1,539,918	251,440	10,283	1,801,641
Additions	492,126	-	52,854	544,980
<b>Balance at September 30, 2017</b>	<b>2,032,044</b>	<b>251,440</b>	<b>63,137</b>	<b>2,346,621</b>
<i>Accumulated amortization</i>				
Balance at September 30, 2016	378,984	49,896	-	428,880
Amortization	418,042	35,918	7,342	461,302
<b>Balance at September 30, 2017</b>	<b>797,026</b>	<b>85,814</b>	<b>7,342</b>	<b>890,182</b>
<i>Net carrying amount</i>				
<b>At September 30, 2017</b>	<b>1,235,018</b>	<b>165,626</b>	<b>55,795</b>	<b>1,456,439</b>
				2016
				\$
	Computer software	Intangible assets from Carleton acquisition	Standards certification	Total
<i>Cost</i>				
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
<i>Accumulated amortization</i>				
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
<i>Net carrying amount</i>				
At September 30, 2016	1,160,934	201,544	10,283	1,372,761

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 9. Goodwill

	2017
	\$
<i>Cost</i>	
Balance at September 30, 2016	3,233,942
Balance at September 30, 2017	3,233,942
	2016
	\$
<i>Cost</i>	
Balance at September 30, 2015	3,233,942
Balance at September 30, 2016	3,233,942

The goodwill arose on acquisition of Peerless and GP 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. For the year ended September 30, 2017 and the year ended September 30, 2016, the Company assessed the goodwill for impairment based on its value in use. To determine value in use, the Company used the 2018 budget plan and 2019 and 2020 forecasts for each of the CGUs as approved by the Board of Directors and then prepared forecasts for the two years ended 2021 and 2022 using an estimated long term revenue and variable cost growth rate of 3% (September 30, 2016 – 3%). The Company's valuation model also takes account of working capital and capital investments to maintain the condition of the assets of each CGU. The resulting forecasted cash flows were discounted using after tax rates of 15% to 20%, representing the discount rates paid on the historic cash flows of the acquisition of the CGU. Based on this assessment, the goodwill attributed to each CGU was not impaired at September 30, 2017.

### 10. Loan facilities

	2017	2016
	\$	\$
Operating loan (a)	14,043,005	14,166,150
Current portion of term loan (b)	1,425,206	1,200,000
Term loan (b)	1,257,294	2,672,500
	16,725,505	18,038,650

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 10. Loan facilities (continued)

Changes to the Company's debt obligations for the year ended are as follows:

	2017	2016
	\$	\$
Balance, at September 30, 2016 and September 30, 2015	<b>18,038,650</b>	17,295,652
Proceeds from operating loan	-	1,336,748
Repayment of operating loan	<b>(123,145)</b>	-
Repayment of term loan	<b>(1,200,000)</b>	(600,000)
Amortization of financing fees	<b>10,000</b>	6,250
Balance, at September 30, 2017 and September 30, 2016	<b>16,725,505</b>	18,038,650

- (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 September 30, 2017, combined drawings under the operating loan facilities were \$14,043,005 (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 0.5% to 1.25% per annum. During the year ended September 30, 2017, the Company recorded interest expense of \$291,514 (2016 - \$408,884) on borrowings under its two operating loan facilities. In addition, the Company has an unutilized 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 September 30, 2017, the Company was in compliance with the covenants (Note 22) 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% to 1.5% depending upon the ratio of debt to tangible net assets. During the year ended September 30, 2017, the Company recorded interest expense of \$111,335 (2016 - \$121,580) on borrowings under its term loan facility. The term loan is repayable by way of quarterly principal payments of \$300,000 plus an annual payment of 50% of surplus cash in excess 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 September 30, 2017, the Company was in compliance with the covenants (Note 22) of its term loan facility.

### 11. Note payable

	2017	2016
	\$	\$
Current portion of note payable	<b>144,924</b>	181,424
Note payable	-	144,923
	<b>144,924</b>	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 date of issuance.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 12. Shareholder advances

	2017	2016
	\$	\$
Postponed shareholder advances	2,105,000	2,105,000
Accrued interest and processing fees	823,001	317,573
	<b>2,928,001</b>	<b>2,422,573</b>

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% and extension fees of 5% to 12%. Repayment of the principal amounts of the advances and the accrued interest, processing and extension fees is due on March 15, 2018.

### 13. 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, which prior to October 1, 2015, could have resulted in the Company being required to make payment under certain triggering events on 60 days' notice from the minority partner. During year ended September 30, 2016, the put/call agreement was amended to extend the notice period under those events to one year plus one day. The Company has recorded the \$1,500,000 redemption amount as a non-current liability at September 30, 2016.

### 14. 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

	Class B common shares	Amount \$
Balance, September 30, 2015	12,604,198	10,442,354
Shares issued for cash (Note 15 (d))	500,000	973,327
Shares issued on exercise of stock options (Note 15 (c))	183,500	184,062
Balance, September 30, 2016	13,287,698	11,599,743
Shares issued on exercise of stock options (Note 15 (c))	50,000	90,000
<b>Balance, September 30, 2017</b>	<b>13,337,698</b>	<b>11,689,743</b>

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 14. Capital stock (continued)

#### (c) 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 year ended September 30, 2017, 50,000 options were exercised at a weighted average exercise price of \$1.80 (2016 – 183,500 options were exercised at a weighted average exercise price of \$1.00) and 405,000 options were forfeited (2016 – 40,000).

The following table summarizes stock options outstanding:

	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
		<b>\$</b>		<b>\$</b>
Outstanding, beginning of year	<b>985,000</b>	<b>1.75</b>	1,158,500	1.63
Granted during the period	<b>500,000</b>	<b>2.48</b>	50,000	1.80
Exercised during the period	<b>(50,000)</b>	<b>1.80</b>	(183,500)	1.00
Forfeited during the period	<b>(405,000)</b>	<b>1.98</b>	(40,000)	1.75
Outstanding, end of year	<b>1,030,000</b>	<b>2.01</b>	985,000	1.75

As at September 30, 2017, 302,000 (2016 - 237,000) options were exercisable with a weighted average exercise price of \$1.75 (2016 - \$1.76) per share. The intrinsic value of these options as at September 30, 2017 was \$175,160 (2016 - \$154,301).

Based on the above vesting schedule, a stock option compensation expense of \$272,104 was recognized for the year ended September 30, 2017 (2016 - \$198,514) 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.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 14. Capital stock (continued)

#### (c) Stock options (continued)

The inputs to the option model are as follows:

	2017	2016
Expected dividend	\$ -	\$ -
Expected volatility	57.4%	43.1%
Weighted average risk free interest rate	1.0%	1.3%
Weighted average remaining life in years	3.2	3.5
Weighted average forfeiture rate	2.6%	3.6%

#### (d) 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.

#### (e) Earnings per share

The following table sets out the computation of basic and diluted net loss per common share:

	2017	2016
	\$	\$
Numerator		
Net income (loss) and comprehensive income (loss) attributable to Unisync Corp. shareholders	<b>689,022</b>	<b>(1,121,538)</b>
Denominator		
Weighted average common shares outstanding	<b>13,333,177</b>	<b>12,708,943</b>
Effect of dilutive securities	<b>88,547</b>	<b>94,192</b>
Diluted weighted average common shares outstanding	<b>13,421,724</b>	<b>12,803,135</b>
Net income (loss) per common share attributable to Unisync Corp. shareholders		
Basic	<b>0.05</b>	(0.09)
Diluted	<b>0.05</b>	(0.09)

### 15. 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:

	2017	2016
	\$	\$
Income tax recovery	<b>(294,365)</b>	(211,941)
Deferred tax expense	<b>653,262</b>	(119,552)
Income tax expense (recovery)	<b>358,897</b>	(331,493)



# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 15. Income taxes (continued)

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:

	2017	2016
	\$	\$
Net income (loss) income before income taxes	1,432,630	(1,292,755)
Tax rate	26.4%	26.0%
	378,388	(335,724)
Taxes attributable to minority partner	(100,880)	(41,709)
Benefit of losses not previously recognized	-	(11,395)
True-ups	19	(1,474)
Permanent differences	81,370	58,809
Income tax expense (recovery)	358,897	(331,493)

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

	2017	2016
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	2,710,458	3,398,532
Deferred tax liabilities		
Property, plant and equipment	(723,910)	(758,721)
	1,986,548	2,639,811

The Company has non-capital losses of approximately \$10,595,000 (2016 - \$13,318,000) that can be applied against future years' taxable income for Canadian income tax purposes, which, if not utilized, will expire as follows:

	\$
2027	1,135,000
2028	4,944,000
2029	360,000
2031	3,166,000
2032	231,000
2033	307,000
2036	452,000
	10,595,000

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 16. Expenses by nature

	2017	2016
	\$	\$
<b>Direct expenses:</b>		
Materials	36,089,845	29,272,972
Wages and benefits	7,231,570	6,624,301
Subcontract fees	6,114,774	4,825,090
Delivery	2,345,140	1,603,996
Rent, utilities and other property costs	1,679,458	1,601,702
Insurance	61,529	54,160
Other	424,726	213,166
	<b>53,947,042</b>	<b>44,195,387</b>
<b>General and administrative expenses:</b>		
Wages and benefits	5,311,773	5,472,606
Rent, utilities and other property costs	175,866	173,443
Data services, system maintenance, telecommunications and software licenses	1,006,163	776,886
Legal, bank, insurance and professional services	759,684	547,552
Advertising, marketing and other promotion costs	456,441	523,497
Other	390,459	402,863
	<b>8,100,386</b>	<b>7,896,847</b>

### 17. Commitments and contingencies

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

	\$
2018	935,958
2019	921,082
2020	782,501
2021	550,072
Thereafter	-
	<b>3,189,613</b>

- (b) At September 30, 2017, the Company had \$nil (2016 - \$324,887) letters of credit outstanding.
- (c) The Company is the subject of litigation by former employees claiming damages for termination without cause. Management believes that these claims are without merit and the Company will vigorously defend the claims. The ultimate amounts payable, if any, are not determinable at this time.

### 18. Economic dependence

During the year ended September 30, 2017, revenue from the Canadian military and other Canadian governmental agencies accounted for 35% of total revenue (2016 - 27%) and revenue from an airline industry customer accounted for 21% of total revenue (2016 - 20%).

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 19. Related party transactions

The Company paid rent of \$44,500 (2016 - \$42,000) for the Company's facility in Carleton Place, Ontario to a corporation which is owned by a member of management.

Of the shareholder advances described in note 12, \$792,500 was provided by members of the Company's board of directors, either directly or through companies that they control. Interest and processing fees of \$190,283 (2016 - \$119,550) were accrued on these related party shareholder advances.

The Company's minority partner in the Peerless segment, a member of management, received an income allocation of \$384,711 (2016 - \$160,276)

### 20. Key management personnel

	2017	2016
	\$	\$
Salaries and wages	1,550,728	1,630,699
Share-based payment	149,908	137,814
	<b>1,700,636</b>	<b>1,768,513</b>

Key management personnel are the Company's officers.

### 21. Financial instruments

#### *Financial instruments and risk management*

The Company's activities result in exposure to a variety of financial risks, including risks relating to interest rates, credit and liquidity. Details of these risks, how they arise, and the objectives and policies for managing them are described as follows:

#### *(a) Interest rate risk*

The Company is exposed to interest rate risk as its credit facilities bear interest at variable rates. The Company has not used derivative instruments to reduce its exposure to this interest rate risk. A 1% change in the variable interest rate would have resulted in a \$106,000 (2016 - \$174,000) change to current year interest expense.

#### *(b) Credit risk*

The Company's principal financial assets subject to credit risk are cash and trade and other receivables. The carrying amounts of financial assets on the statement of financial position represent the Company's maximum credit exposure at the date of the statement of financial position.

The Company's credit risk is primarily attributable to its trade receivables. As of September 30, 2017, 35.5% of trade receivables were from the Government of Canada and 41.2% of trade receivables were from companies that the Company has had insured for loss with an AA- rated credit insurance company. Under the Company's \$5,000,000 credit insurance policy, 90% of receivables losses greater than \$2,000 and in excess of a \$7,500 aggregate deductible are insured at 90% of the loss amount. The amounts disclosed in the statement of financial position are net of an allowance for doubtful accounts, estimated by the management of the Company based on previous experience and its assessment of the current economic environment. The Company reviews these amounts regularly to ensure credit limits are not exceeded. The credit risk on cash is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 21. Financial instruments (continued)

#### (b) Credit risk (continued)

Aging of trade and other receivables is as follows:

	2017		2016	
	Gross	Provision	Gross	Provision
	\$	\$	\$	\$
Not past due	6,823,711	-	5,086,765	-
Past due 1-30 days	1,534,357	-	1,336,938	-
Past due 31-60 days	216,828	-	956,262	-
Past due > 60 days	809,565	(133,954)	371,583	(175,216)
	<b>9,384,461</b>	<b>(133,954)</b>	<b>7,751,548</b>	<b>(175,216)</b>

#### (c) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. It has unused lines of credit available to meet obligations.

	2017				
	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Trade payables and accrued liabilities	4,437,649	-	-	-	4,437,649
Deferred revenue	21,463,620	-	-	-	21,463,620
Operating loan	14,043,005	-	-	-	14,043,005
Term loan	1,503,708	1,293,677	-	-	2,797,385
Note payable	150,000	-	-	-	150,000
Shareholder advances	2,928,001	-	-	-	2,928,001
Due to minority partner	-	1,500,000	-	-	1,500,000

  

	2016				
	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Trade payables and accrued liabilities	4,289,669	-	-	-	4,289,669
Deferred revenue	2,832,175	-	-	-	2,832,175
Operating loan	14,166,150	-	-	-	14,166,150
Term loan	1,313,850	2,544,900	303,881	-	4,162,631
Note payable	200,000	150,000	-	-	350,000
Shareholder advances	2,422,573	-	-	-	2,422,573
Due to minority partner	-	1,500,000	-	-	1,500,000

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

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### 21. Financial instruments (continued)

#### (d) *Currency risk*

The Company may undertake sales and purchase transactions in foreign currencies, and therefore is subject to gains or losses due to foreign currency fluctuations. The Company uses derivative financial instruments to mitigate its foreign currency risk on offshore finished goods purchases related to major new uniform rollouts. The balance sheet includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in United States dollars.

	2017	2016
	\$	\$
Accounts receivable	4,441	39,581
Bank indebtedness	171,716	397,982
Accounts payable and accrued liabilities	410,840	579,355

#### (e) *Fair value*

The fair value of the Company's cash, trade and other receivables and trade payables and accrued liabilities approximates their carrying value due to their immediate or short-term maturity. The fair value of long-term debt approximates its carrying value due to the variable rate of interest being charged. The fair value of the minority partner approximates its carrying value at September 30, 2017. The Company's own credit risk and counterparty's credit risk is taken into account in determining the fair value of financial assets and financial liabilities.

The Company has no financial instruments at fair value within a Level 1 or Level 2 fair value hierarchy. The cash surrender value of life insurance, the note payable, the shareholder advances and due to minority partner are Level 3 financial instruments. The fair value of these Level 3 financial instruments approximates the carrying value of each at September 30, 2017.

### 22. Capital management

The Company's objectives when managing capital are to:

- (a) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- (b) maintain capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes equity and long-term debt (including due to minority partner) in the definition of capital.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, issue new shares or issue new debt.

Capital management objectives, policies and procedures are unchanged since the preceding year.

Under the terms of its operating loan agreements (Note 10 (a)), the Company must satisfy certain restrictive covenants as to minimum financial ratios as follows:

- (i) The ratio of current assets to current liabilities must be greater than a range of 1.10:1 to 1.25:1 until February 28, 2018, and thereafter greater than 1.25:1.
- (ii) The ratio of debt to tangible net assets must not be greater than a range of 2.5:1 to 3.75:1 until February 28, 2018, nor 2.5:1 thereafter.
- (iii) Capital expenditures must not be greater than \$1,750,000.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 22. Capital management (continued)

Under the terms of its term loan agreement (Note 10 (b)), the Company must satisfy certain restrictive covenants as to minimum financial ratios as follows:

- (i) The consolidated debt service coverage ratio of cash flow from operations to debt obligations must be greater than 1.25:1.
- (ii) The consolidated ratio of debt to tangible net assets must not be greater than 3:1.

As at September 30, 2017 and September 30, 2016 the Company was in compliance with all such covenants.

### 23. 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.

				2017
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	25,771,333	39,805,317	(4,174)	65,572,476
Direct expenses	20,297,901	33,653,315	(4,174)	53,947,042
General and administrative expenses	1,349,396	6,193,661	557,329	8,100,386
Depreciation and amortization	63,991	698,823	104,812	867,626
	4,060,045	(740,482)	(662,141)	2,657,422
Interest expense	212,932	123,655	616,101	952,688
Share based payment	-	-	272,104	272,104
Net income (loss) before income taxes	3,847,113	(864,137)	(1,550,346)	1,432,630
Capital expenditures on property, plant and equipment	30,319	349,630	-	379,949
Capital expenditures on intangible assets	-	544,981	-	544,981
Total assets	10,680,091	42,350,860	6,345,857	59,376,808
Property, plant and equipment	1,053,939	901,731	2,126,405	4,082,075
Intangible assets	-	1,456,439	-	1,456,439
Goodwill	-	647,942	2,586,000	3,233,942
Liabilities, excluding due to minority partner	5,614,970	34,917,461	5,890,555	46,422,986

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2017 and September 30, 2016

(Expressed in Canadian dollars)

### 23. Segmented information (continued)

				2016
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	16,682,683	36,037,326	(4,281)	<b>52,715,728</b>
Direct expenses	13,699,226	30,500,442	(4,281)	<b>44,195,387</b>
General and administrative expenses	1,258,536	6,119,910	518,401	<b>7,896,847</b>
Depreciation and amortization	53,284	601,823	145,462	<b>800,569</b>
	1,671,637	(1,184,849)	(663,863)	<b>(177,075)</b>
Interest expense	68,871	391,807	456,488	<b>917,166</b>
Share based payment	-	-	198,514	<b>198,514</b>
Net income before income taxes	1,602,766	(1,576,656)	(1,318,865)	<b>(1,292,755)</b>
Capital expenditures on property, plant and equipment	10,737	107,481	-	<b>118,218</b>
Capital expenditures on intangible assets	-	322,670	-	<b>322,670</b>
Total assets	10,884,626	22,951,489	7,019,020	<b>40,855,135</b>
Property, plant and equipment	1,087,611	794,644	2,231,218	<b>4,113,473</b>
Intangible assets	-	1,372,761	-	<b>1,372,761</b>
Goodwill	-	647,942	2,586,000	<b>3,233,942</b>
Liabilities, excluding due to minority partner	5,977,122	16,153,738	6,827,231	<b>28,958,091</b>