

Condensed interim consolidated financial statements of

# **Unisync Corp.**

As at and for the three and six month period ended March 31, 2017

# Unisync Corp.

March 31, 2017

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## **Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed these condensed unaudited interim consolidated financial statements as at and for the three and six months ended March 31, 2017.

# Unisync Corp.

Condensed interim consolidated statements of comprehensive (loss)  
For the three and six months ended March 31, 2017 and March 31, 2016

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		six months ended	
	March 31	March 31	March 31	March 31
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue	13,618,541	13,742,695	28,157,555	27,135,701
Direct expenses (Note 15)	11,404,948	11,687,363	23,400,152	22,435,995
General and administrative expenses (Note 15)	2,015,246	1,987,104	3,928,683	4,185,288
Depreciation and amortization	201,198	209,816	398,651	388,558
	(2,851)	(14,1588)	430,069	125,860
Interest expense	200,745	239,596	431,166	395,850
Share-based payment (Note 13)	73,210	55,752	149,476	129,541
Net loss before income taxes	(276,806)	(436,936)	(150,573)	(399,531)
Income tax recovery (Note 14)	(70,056)	(108,430)	(33,731)	(82,909)
<b>Net loss and total comprehensive loss</b>	<b>(206,750)</b>	<b>(328,506)</b>	<b>(116,842)</b>	<b>(316,622)</b>
<b>Attributable to</b>				
Unisync Corp. shareholders	(282,463)	(366,880)	(272,518)	(381,300)
Minority partner	75,713	38,374	155,676	64,678
	(206,750)	(328,506)	(116,842)	(316,622)
<b>Net loss per share attributable to Unisync Corp. shareholders</b>				
Basic	(0.02)	(0.03)	(0.02)	(0.03)
Diluted	(0.02)	(0.03)	(0.02)	(0.03)
<b>Weighted average number of shares</b>	<b>13,337,698</b>	<b>12,604,198</b>	<b>13,328,632</b>	<b>12,604,198</b>
<b>Diluted weighted number of shares outstanding</b>	<b>13,398,192</b>	<b>12,706,131</b>	<b>13,386,354</b>	<b>12,706,645</b>

# Unisync Corp.

## Condensed interim consolidated statements of financial position

As at March 31, 2017 and September 30, 2016

(Expressed in Canadian dollars)

(Unaudited)

	March 31, 2017	September 30, 2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash	364,559	60,828
Trade and other receivables	6,672,347	7,576,332
Inventory (Note 5)	21,097,005	19,633,998
Prepaid expenses	8,061,787	2,140,709
	<b>36,195,698</b>	<b>29,411,867</b>
Non-current assets		
Cash surrender value of life insurance policy	83,281	83,281
Property, plant and equipment (Note 6)	3,954,188	4,113,473
Deferred tax asset (Note 14)	2,607,249	2,639,811
Intangible assets (Note 7)	1,469,294	1,372,761
Goodwill (Note 8)	3,233,942	3,233,942
	<b>47,543,652</b>	<b>40,855,135</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan (Note 9)	7,571,522	14,166,150
Trade payables and accrued liabilities	5,002,749	4,289,669
Provision for income taxes (Note 14)	951,360	1,048,677
Deferred revenue	15,981,643	2,832,175
Current portion of term loan (Note 9)	1,200,000	1,200,000
Current portion of note payable (Note 10)	188,229	181,424
Shareholder advances (Note 11)	2,633,046	2,422,573
	<b>33,528,549</b>	<b>26,140,668</b>
Non-current liabilities		
Term loan (Note 9)	2,077,500	2,672,500
Note payable (Note 10)	49,177	144,923
Due to minority partner (Note 12)	1,500,000	1,500,000
	<b>37,155,226</b>	<b>30,458,091</b>
Commitments and contingencies (Note 16)		
<b>Equity</b>		
Share capital (Note 13)	11,689,743	11,599,743
Share-based payment reserve	787,707	638,231
Deficit	(2,096,831)	(1,824,313)
Equity attributable to Unisync Corp. shareholders	10,380,619	10,413,661
Equity (deficit) attributable to minority partner	7,807	(16,617)
	<b>10,388,426</b>	<b>10,397,044</b>
	<b>47,543,652</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.

## Condensed interim consolidated statements of changes in equity

For the six months ended March 31, 2017 and March 31, 2016

(Expressed in Canadian dollars)

(Unaudited)

	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>
Share-based payment	-	-	129,541	-	129,541	-	129,541
Distribution to minority partner	-	-	-	-	-	(58,221)	(58,221)
Net loss and							
total comprehensive loss	-	-	-	(381,300)	(381,300)	64,678	(316,622)
<b>Balance,</b>							
<b>March 31, 2016</b>	<b>12,604,198</b>	<b>10,442,354</b>	<b>569,820</b>	<b>(1,084,075)</b>	<b>9,928,099</b>	<b>(15,758)</b>	<b>9,912,341</b>
<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 13 (d))	50,000	90,000	-	-	90,000	-	90,000
Share-based payment	-	-	149,476	-	149,476	-	149,476
Distribution to minority partner	-	-	-	-	-	(131,252)	(131,252)
Net loss and							
total comprehensive loss	-	-	-	(272,518)	(272,518)	155,676	(116,842)
<b>Balance,</b>							
<b>March 31, 2017</b>	<b>13,337,698</b>	<b>11,689,743</b>	<b>787,707</b>	<b>(2,096,831)</b>	<b>10,380,619</b>	<b>7,807</b>	<b>10,388,426</b>

# Unisync Corp.

## Condensed interim consolidated statements of cash flows

For the three and six months ended March 31, 2017 and March 31, 2016

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		six months ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(206,750)	(328,506)	(116,842)	(316,622)
Adjustments for:				
Interest expense	200,745	239,596	431,166	395,850
Income tax recovery	(70,056)	(108,430)	(33,731)	(82,909)
Income taxes paid	(31,024)	-	(31,024)	(55,391)
Depreciation and amortization	201,198	209,816	398,651	388,558
Increase in cash surrender value of life insurance	-	-	-	(4,068)
Share-based payment	73,210	55,752	149,476	129,541
	167,323	68,228	797,696	454,959
Changes in non-cash working capital items				
Trade and other receivables	924,628	251,564	903,985	(636,284)
Inventory	(666,497)	653,087	(1,463,007)	(835,785)
Prepaid expenses	(2,389,466)	22,007	(5,921,077)	419,453
Trade payables and accrued liabilities	1,611,897	(841,653)	713,080	272,821
Provision for income taxes	-	(729)	-	(729)
Deferred revenue	141,913	(361,617)	13,149,468	(575,784)
	(210,202)	(209,113)	8,180,145	(901,349)
<b>Investing activities</b>				
Purchase of property, plant and equipment	(19,327)	(14,497)	(27,301)	(38,998)
Purchase of intangible assets	(204,901)	(127,926)	(308,598)	(217,978)
	(224,228)	(142,423)	(335,899)	(256,976)
<b>Financing activities</b>				
Increase (decrease) in operating loan	854,262	(214,074)	(6,594,628)	(43,998)
Term loan repayments	(300,000)	(300,000)	(600,000)	(600,000)
Shareholder advances	-	905,000	-	2,105,000
Note payment	(44,896)	(41,493)	(88,941)	(82,136)
Interest paid	(94,092)	(135,322)	(215,694)	(282,198)
Distributions to minority partner	(60,365)	(33,496)	(131,252)	(58,221)
Proceeds on exercise of stock options	-	-	90,000	-
	354,909	180,615	(7,540,515)	1038,447
Net cash inflows (outflows)	(79,521)	(170,921)	303,731	(119,878)
Cash, beginning of period	444,080	256,987	60,828	205,944
<b>Cash, end of period</b>	<b>364,559</b>	<b>86,066</b>	<b>364,559</b>	<b>86,066</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

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### 1. Nature of business

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

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

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

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

### 2. Basis of presentation and significant accounting policies

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

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

These condensed interim consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on May 16, 2017.

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

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

IAS 7 – Statement of Cash Flows

IAS 12 – Income Taxes

IFRS 2 – Share-based Payment

IFRS 9 - Financial Instruments

IFRS 15 - Revenue from Contracts with Customers

IFRS 16 - Leases

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



# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

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#### 4. Critical accounting estimates and judgments

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

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

(a) *Accounts receivable*

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

(b) *Inventory*

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

(c) *Share-based payment*

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

(d) *Income taxes*

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

(e) *Estimated useful lives*

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

(f) *Impairment of long lived assets*

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

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

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

(g) *Impairment of goodwill*

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

(h) *Allocation of purchase consideration*

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

#### 5. Inventory

	<b>March 31, 2017</b>	September 30, 2016
	<b>\$</b>	<b>\$</b>
Raw materials	<b>6,686,117</b>	4,168,773
Work in process	<b>1,442,153</b>	1,905,743
Finished goods	<b>12,968,735</b>	13,559,482
	<b>21,097,005</b>	19,633,998

Cost of inventories recognized as an expense during the six months ended March 31, 2017 amounted to \$19,480,133 (March 31, 2016 - \$18,255,056). During the six months ended March 31, 2017, inventory was written down by \$232,810 (March 31, 2016 - \$78,665) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value was \$310,216 at March 31, 2017 (at September 31, 2016 - \$400,216), with the remaining inventory recorded at cost.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

### 6. Property, plant and equipment

	March 31 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	-	-	14,599	13,758	-	-	(1,056)	27,301
Disposals	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2017</b>	<b>422,730</b>	<b>2,695,000</b>	<b>1,458,613</b>	<b>597,605</b>	<b>95,878</b>	<b>80,489</b>	<b>356,538</b>	<b>5,706,853</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	-	29,258	79,806	25,909	10,547	5,656	35,410	186,586
<b>Balance at March 31, 2017</b>	<b>-</b>	<b>383,613</b>	<b>662,171</b>	<b>402,162</b>	<b>54,708</b>	<b>62,318</b>	<b>187,693</b>	<b>1,752,665</b>
<i>Net carrying amount</i>								
<b>At March 31, 2017</b>	<b>422,730</b>	<b>2,311,387</b>	<b>796,442</b>	<b>195,443</b>	<b>41,170</b>	<b>18,171</b>	<b>168,845</b>	<b>3,954,188</b>

  

	September 30 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
Additions	-	-	57,641	30,500	-	-	30,077	118,218
Disposals	-	-	(6,184)	-	-	-	-	(6,184)
<b>Balance at September 30, 2016</b>	<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	3,1937	44,640	76,137	1,181,572
Depreciation	-	60,016	209,395	14,704	12,224	12,022	76,146	384,507
<b>Balance at September 30, 2016</b>	<b>-</b>	<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>								
<b>At September 30, 2016</b>	<b>422,730</b>	<b>2,340,645</b>	<b>861,649</b>	<b>207,594</b>	<b>51,717</b>	<b>23,827</b>	<b>205,311</b>	<b>4,113,473</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

### 7. Intangible assets

	March 31 2017			
	\$			
	Computer software	Intangible assets from Carleton acquisition (note 6)	Standards certification	Total
<i>Cost</i>				
Balance at September 30, 2016	1,539,918	251,440	10,283	1,801,641
Additions	281,243	-	27,355	308,598
<b>Balance at March 31, 2017</b>	<b>1,821,161</b>	<b>251,440</b>	<b>37,638</b>	<b>2,110,239</b>
<i>Accumulated amortization</i>				
Balance at September 30, 2016	378,984	49,896	-	428,880
Amortization	194,154	17,911	-	212,065
<b>Balance at March 31, 2017</b>	<b>573,138</b>	<b>67,807</b>	<b>-</b>	<b>640,945</b>
<i>Net carrying amount</i>				
<b>At March 31, 2017</b>	<b>1,248,023</b>	<b>183,633</b>	<b>37,638</b>	<b>1,469,294</b>
	September 30 2016			
	\$			
	Computer software	Intangible assets from Carleton acquisition (note 6)	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 condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

### 8. Goodwill

	<b>March 31 2017</b>
	\$
<i>Cost</i>	
Balance at September 30, 2016	<b>3,233,942</b>
<b>Balance at March 31, 2017</b>	<b>3,233,942</b>
	September 30 2015
	\$
<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 in 2010 and from the acquisitions of Carleton and Omega in 2015. For impairment testing purposes, the goodwill is allocated to the cash-generating unit ("CGU"). There has been no change to the goodwill since each acquisition.

### 9. Loan facilities

	<b>March 31, 2017</b>	September 30, 2016
	\$	\$
Operating loan (a)	<b>7,571,522</b>	14,166,150
Current portion of term loan (b)	<b>1,200,000</b>	1,200,000
Term loan (b)	<b>2,077,500</b>	2,672,500
	<b>10,849,022</b>	18,038,650

Changes to the Company's debt obligations for the six month period ended March 31, 2017 are as follows:

	<b>March 31 2017</b>
	\$
Balance, at September 30, 2016	18,038,650
Repayment of operating loan	(6,594,628)
Repayment of term loan	(600,000)
Amortization of financing fees	5,000
<b>Balance, at March 31, 2017</b>	<b>10,849,022</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

### 9. Loan facilities (continued)

- (a) The Company has established two operating loan facilities totalling \$18,500,000 with a Canadian chartered bank to finance its working capital requirements. Borrowings under these revolving loan facilities are subject to normal margining requirements that limit borrowings to acceptable accounts receivable and inventory and the appraised value of land and buildings. As at March 31, 2017, combined drawings under the operating loan facilities were \$7,571,522 (September 30, 2016 - \$14,166,150). The borrowings under the operating loan facilities are available by way of prime rate advances or banker's acceptances. Prime rate advances under the operating loan facilities bear interest in a range of bank prime rate plus 1/2% to 3/4% per annum. In addition, the Company has entered into short term contracts totalling US\$5,800,000 (September 30, 2016 - nil) under a foreign exchange loan facility, a \$100,000 credit card facility and an unutilized \$10,500,000 interest rate swap facility. Security for the loan facilities include a first mortgage on the Company's land and buildings, general security agreements, a specific pledge of certain assets and inter-company guarantees. As at March 31, 2017, the Company was in compliance with the covenants of its operating loan facilities.
- (b) Borrowings under the term loan facility are available by way of prime rate advances or banker's acceptances. Prime rate advances under the term loan facility bear interest in a range of bank prime rate plus 1/2% to 1% depending upon the ratio of debt to tangible net assets. The term loan is repayable by way of quarterly principal payments of \$300,000. In addition to the term loan facility, the Company has an unutilized interest rate swap facility with availability up to the amount outstanding under the term loan facility. The term loan facility and the related interest rate swap facility are secured by a pledge of the assets owned by the Company and by guarantees from the Company's subsidiaries. As at March 31, 2017, the Company was in compliance with the covenants of its term loan facility.

### 10. Note payable

	<b>March 31, 2017</b>	September 30, 2016
	\$	\$
Current portion of note payable	<b>188,229</b>	181,424
Note payable	<b>49,177</b>	144,923
	<b>237,406</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 May 12, 2015 date of issuance.

### 11. Shareholder advances

	<b>March 31 2017</b>	September 30 2016
	\$	\$
Shareholder advances	<b>2,105,000</b>	2,105,000
Accrued interest and processing fees	<b>528,046</b>	317,573
	<b>2,633,046</b>	2,422,573

The Company has received bank postponed shareholder advances of \$2,105,000. The advances bear interest at 8% per annum and are subject to a 1% per month processing fee on each extension period. Repayment of the principal amounts of the advances and the accrued interest and processing fees is due on March 15, 2018.

# Unisync Corp.

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(Unaudited)

### 12. Due to minority partner

As part of the acquisition of Peerless in 2010, the Company and the minority partner entered into a put/call agreement at a fixed price of \$1,500,000. As the notice period for a triggering event is a minimum duration of one year plus one day, the Company has recorded the \$1,500,000 redemption amount as a non-current liability at March 31, 2017.

### 13. Capital stock

#### (a) Authorized

Unlimited number of the following classes of shares:

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

#### (b) Shares issued and fully paid

	Number of shares	
	Class B common shares	Amount \$
Balance, September 30, 2015	12,604,198	10,442,354
Shares issued for cash (Note 16 (c))	500,000	973,327
Shares issued on exercise of stock options (Note 16 (d))	183,500	184,062
Balance, September 30, 2016	13,287,698	11,599,743
Shares issued on exercise of stock options (Note 16 (d))	50,000	90,000
<b>Balance, March 31, 2017</b>	<b>13,337,698</b>	<b>11,689,743</b>

#### (c) Share issuance

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

#### (d) Stock options

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

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

On October 3, 2016, 340,000 stock options were granted for a term of five years and vest over five years at a rate of one-fifth annually at the end of the 12 month period from the date in which they were granted.

During the six months ended March 31, 2017, 50,000 options were exercised at a weighted average exercise price of \$1.80 (March 31, 2016 – nil options were exercised) and 120,000 options were forfeited (March 31, 2016 – 20,000 options).

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

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(Unaudited)

### 13. Capital stock (continued)

The following table summarizes stock options outstanding:

	six months ended March 31, 2017		six months ended March 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	985,000	1.75	1,158,500	1.63
Granted during the period	340,000	2.40	50,000	1.80
Exercised during the period	(50,000)	1.80	-	-
Forfeited during the period	(120,000)	1.75	(20,000)	1.75
Outstanding, end of period	<b>1,155,000</b>	<b>1.94</b>	<b>1,188,500</b>	<b>1.64</b>

Based on the above vesting schedule, a stock option compensation expense of \$149,476 was recognized for the six month period ended March 31, 2017 (March 31, 2016 - \$129,541) and a corresponding amount was added to share-based payment reserve as a reserve for share-based payments. Option pricing models require the use of highly subjective estimates and assumptions, changes in which can materially affect the value estimates.

### 14. Income taxes

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

	six months ended March 31 2017	six months ended March 31 2016
	\$	\$
Income tax recovery	(66,292)	(55,686)
Deferred tax expense (recovery)	32,561	(27,223)
Income tax recovery	<b>(33,731)</b>	<b>(82,909)</b>

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:

	six months ended March 31 2017	six months ended March 31 2016
	\$	\$
Net loss before income taxes	(150,573)	(399,531)
Tax rate	25.3%	25.8%
	(38,049)	(102,941)
Taxes attributable to minority partner	(40,506)	(16,837)
True-ups	19	(729)
Permanent differences	44,805	37,598
Income tax recovery	<b>(33,731)</b>	<b>(82,909)</b>



# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

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(Unaudited)

### 14. Income taxes (continued)

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

	March 31 2017	September 30 2015
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	3,248,578	3,398,532
Deferred tax liabilities		
Property, plant and equipment	(741,329)	(758,721)
	<u>2,507,249</u>	<u>2,639,811</u>

The Company has non-capital losses of approximately \$12,980,000 (at September 30, 2016 - \$13,318,000) that can be applied against future years' taxable income for Canadian income tax purposes. The use of these losses expires at various dates between 2027 and 2036.

### 15. Expenses by nature

	six months ended March 31 2017	six months ended March 31 2016
	\$	\$
Materials	14,774,750	15,122,290
Wages and benefits	6,102,267	6,055,881
Subcontract fees	3,327,470	2,388,908
Rent, utilities and other property costs	989,277	873,285
Delivery	818,371	853,328
Data services, system maintenance, telecommunications and software licenses	392,598	449,575
Legal, bank, insurance and professional services	298,401	262,573
Advertising, marketing and other promotion costs	284,511	260,411
Other	341,189	355,032
	<u>27,328,834</u>	<u>26,621,283</u>
Direct expenses	23,400,152	22,435,995
General and administrative expenses	3,928,683	4,185,288
	<u>27,328,835</u>	<u>26,621,283</u>

### 16. Commitments and contingencies

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

# Unisync Corp.

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(Unaudited)

	\$
2017	779,743
2018	935,958
2019	921,082
2020	782,501
2021	550,072
Thereafter	-
	<u>3,969,356</u>

### 16. Commitments and contingencies (continued)

(b) The Company has letters of credit outstanding at March 31, 2017 totaling \$324,887 (at September 30 2016 - \$324,887), the purpose of which is to provide a guarantee of the Company's performance on certain contracts.

### 17. Economic dependence

During the six month period ended March 31, 2017, revenue from the Canadian military and other Canadian governmental agencies accounted for 34% of total revenue (March 31, 2016 - 24%) and revenue from an airline industry customer accounted for 17% of total revenue (March 31, 2016 - 23%).

### 18. Segmented information

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

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

	six months ended			
	March 31			
	2017			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	11,575,286	16,583,751	(1,482)	28,157,555
Direct expenses	9,298,103	14,103,531	(1,482)	23,400,152
General and administrative expenses	597,559	3,088,391	242,733	3,928,683
Depreciation and amortization	31,995	314,250	52,406	398,651
	<u>1,647,629</u>	<u>(922,421)</u>	<u>(295,139)</u>	<u>430,069</u>
Interest expense	90,867	79,601	260,698	431,166
Share based payment	-	-	149,476	149,476
Net income before income taxes	1,556,762	(1,002,022)	(705,313)	(150,573)
Capital expenditures on property, plant and equipment	9,669	17,632	-	27,301
Capital expenditures on intangible assets	-	308,598	-	308,598
Total assets	12,055,038	27,222,089	8,266,525	47,543,652
Intangible assets	-	1,469,294	-	1,469,294
Goodwill	-	647,942	2,586,000	3,233,942
Liabilities, excluding due to minority partner	6,999,862	21,080,282	7,575,082	35,655,226

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

March 31, 2017

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(Unaudited)

### 18. Segmented information (continued)

	six months ended			
	March 31			
	2016			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	7,609,944	19,528,156	(2,399)	27,135,701
Direct expenses	6,283,738	16,154,656	(2,399)	22,435,995
General and administrative expenses	632,303	3,306,508	246,477	4,185,288
Depreciation and amortization	26,237	289,185	73,136	388,558
	667,666	(222,193)	(319,613)	125,860
Interest expense	20,884	197,490	177,476	395,850
Share based payment	-	-	129,541	129,541
Net income before income taxes	646,782	(419,683)	(626,630)	(399,531)
Capital expenditures on property, plant and equipment	-	38,998	-	38,998
Capital expenditures on intangible assets	-	217,978	-	217,978
Total assets	8,704,013	22,723,287	5,974,985	37,402,285
Intangible assets	-	1,622,065	-	1,622,065
Goodwill	-	647,942	2,586,000	3,233,942
Liabilities, excluding due to minority partner	3,788,031	16,523,270	5,678,643	25,989,944