

UNISYNC CORP.

**Management Discussion and Analysis
For the nine month period ended June 30, 2018**

Prepared as at July 30, 2018

UNISYNC CORP.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the nine month period ended June 30, 2018

BACKGROUND

The following discussion and analysis, prepared as of July 30, 2018, should be read together with the audited consolidated financial statements and the accompanying notes for the years ended September 30, 2017 and the unaudited condensed interim consolidated financial statements and accompanying notes for the nine month period ended June 30, 2018 prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

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

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

DESCRIPTION OF BUSINESS

Unisync Corp. is a British Columbia corporation and reporting issuer in British Columbia, Alberta, Manitoba and Ontario. Unisync's voting Common Shares (known as Class B Common Shares prior to an April 20, 2018 amendment to the Company's articles to change the identifying name of the Company's common shares from "Class B Common Shares" to "Common Shares") are listed and posted for trading on the TSX Venture Exchange under the symbol "UNI". Unisync Corp. and its subsidiaries are hereinafter referred to collectively as "Unisync" or the "Company".

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

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

Business Strategy

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

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

RESULTS OF OPERATIONS

The following table sets out selected consolidated financial information for the previous three fiscal years. The operations of Carleton and Omega are included in the consolidated financial statements from the respective dates of each acquisition.

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Fiscal years ended	September 30, 2017	September 30, 2016	September 30, 2015
Consolidated statement of comprehensive loss data:			
Revenue	65,572,476	52,715,728	44,812,303
Direct expenses	53,947,042	44,195,387	36,928,178
General and administrative expenses	8,100,386	7,896,847	7,023,107
Depreciation	867,626	800,569	684,427
Interest expense	952,688	917,166	586,088
Share-based payment	272,104	198,514	171,180
Net income (loss) before income taxes	1,432,630	(1,292,755)	(580,677)
Income tax expense (recovery)	358,897	(331,493)	(227,154)
Net income (loss) and total comprehensive income (loss)	1,073,733	(961,262)	(353,523)
Attributable to Unisync Corp. shareholders	689,022	(1,121,538)	(495,622)
Attributable to minority partner	384,711	160,276	142,099
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	0.05	(0.09)	(0.04)
Diluted	0.05	(0.09)	(0.04)
Supplemental data:			
Gross profit (1)	10,757,808	7,719,772	7,199,698
Gross profit as a % of revenue	16.4%	14.6%	16.1%
EBITDA (2)	3,525,048	623,494	861,018
EBITDA as a % of revenue	5.4%	1.2%	1.9%
Consolidated statement of financial position data:			
Working capital, excluding shareholder advances, amount due to minority partner and term loan	7,743,241	6,893,772	4,765,787
Total assets	59,376,808	40,855,135	36,569,840
Other liabilities:			
Term loan	2,682,500	3,872,500	4,466,250
Shareholder advances	2,928,001	2,422,573	-
Deferred tax liabilities	723,910	758,721	799,882
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	11,464,787	10,413,661	10,179,858
Shareholder's equity - attributable to minority partner	(10,695)	(16,617)	(22,215)
(1) Gross profit is calculated by the Company as revenue less direct expenses and less depreciation.			
(2) EBITDA is calculated by the Company as earnings before interest expense, income taxes, depreciation and amortization, share-based payment and impairment losses.			
Gross profit and EBITDA are non-GAAP financial measures. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. We have presented the nonGAAP measures of Gross profit and EBITDA because we believe that these widely accepted financial indicators of an entity's (1) operating performance and (2) its ability to incur and service debt. These measures are used by the investing community to value businesses.			

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For the nine month period ended June 30, 2018**

Summary of Quarterly Results

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

	09/30/2016	12/31/2016	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018	06/30/2018
Revenue	13,034	14,539	13,618	17,305	20,110	13,629	36,373	15,017
Direct expenses	10,953	11,996	11,405	14,114	16,433	10,922	24,603	11,870
Depreciation	217	197	201	209	260	231	228	236
General & administrative	1,723	1,913	2,015	2,206	1,966	2,123	2,313	2,062
Interest expense	278	231	201	180	341	261	297	277
Share based payment	39	76	73	72	51	112	86	79
Net income (loss) before income taxes	(176)	126	(277)	524	1,059	(20)	8,846	492
Income tax expense (recovery)	(62)	36	(70)	120	273	14	2,329	(1,526)
Net income (loss) and comprehensive income (loss)	(114)	90	(207)	404	786	(34)	6,517	2,018
Net income (loss) attributable to Unisync shareholders	(166)	10	(283)	259	703	(79)	6,449	1,991
Income attributable to minority partner	52	80	76	145	83	45	68	27
Basic income (loss) per share	(0.01)	0.00	(0.02)	0.02	0.05	(0.01)	0.48	0.15
Diluted income (loss) per share	(0.01)	0.00	(0.02)	0.02	0.05	(0.01)	0.48	0.15
Supplemental data:								
Gross profit (1)	1,864	2,346	2,012	2,982	3,417	2,476	11,542	2,910
Gross profit %	14.3%	16.1%	14.8%	17.2%	17.0%	18.2%	31.7%	19.3%
EBITDA (2)	360	630	198	985	1,711	584	9,457	1,085
EBITDA %	2.8%	4.3%	1.5%	5.7%	8.5%	4.3%	26.0%	7.2%

(1) Gross profit is calculated by the Company as revenue less direct expenses and depreciation and amortization.

(2) EBITDA is calculated by the Company as earnings before interest expense, income taxes, depreciation and amortization, share-based payment and impairment losses.

Gross profit and EBITDA are non-GAAP financial measures. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. We have presented the nonGAAP measures of Gross profit and EBITDA because we believe that these are widely accepted financial indicators of an entity's (1) operating performance and (2) its ability to incur and service debt. These measures are used by the investing community to value businesses.

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Results for the quarter ended June 30, 2018 versus the quarter ended June 30, 2017

Revenue for the three months ended June 30, 2018 of \$15.0 million decreased by \$2.3 million over the three months ended June 30, 2017 as a \$4.8 million rise in revenue in the UGL segment was more than offset by a \$7.1 million revenue drop in the Peerless segment. The revenue increase in the UGL segment was due to the shipment of additional new uniform allotments to the employees of the Company's largest airline account following the successful bulk new uniform rollout in the prior quarter combined with a buyback by the airline of its old uniform inventory in the current quarter. In addition, the UGL segment commenced shipping a large new uniform rollout to Canada's largest drug store chain during the three months ended June 30, 2018. The Peerless segment's second quarter revenue of \$1.5 million declined over the same period in the prior year due to a delay in the release of new contracts and in the exercise of outstanding options on existing contracts by the Department of National Defence ("DND"), the segment's largest customer.

Gross profit for the three months ended June 30, 2018 was \$2.9 million or 19% of revenue versus \$3.0 million or 17% of revenue during the three months ended June 30, 2017. The UGL segment recorded gross profit of \$2.5 million or 19% of segment revenue up from a gross profit of \$1.0 million or 12% of segment revenue in the same quarter of the prior fiscal year. The improvement in gross profit and gross profit margin in the third quarter of fiscal 2018 compared to the same quarter last year was due to a greater absorption of fixed costs on the higher volume of sales. With the decrease in revenue in the Peerless segment experienced in the current quarter, that segment's gross profit decreased by \$1.6 million to \$0.4 million from \$2.0 million in the same period in the prior year but the Peerless segment's gross profit margin improved to 25% of revenue from 23% due to the mix of product sales.

General and administrative expenses decreased by \$0.1 million or 7% in the three months ended June 30, 2018 from the same period one year ago as a \$0.3 million decline in the Peerless segment associated with labour cost reductions more than offset minor increases in the UGL and Corporate segments.

Interest expense of \$0.3 million for the current quarter was up from \$0.2 million in the same period in fiscal 2017 because of greater working capital requirements related to the UGL's segment's new uniform launch for its largest airline account in the second quarter of 2018.

In the third quarter of fiscal 2018 with the improved financial performance of the Company in the current year and with the probability of continued profitability, the Company recorded the benefit of \$4.7 million of income tax losses not previously recognized. This recognition resulted in an income tax recovery of \$1.7 million being applied in the current quarter to income tax expense and caused in a net recovery of \$1.5 million.

The Company realized net income and total comprehensive income of \$2.0 million in the quarter ended June 30, 2018 compared to \$0.4 million in the same quarter last year for the reasons cited above. Cash flow from operations, before non-cash working capital items and distributions to minority partner, was \$1.1 million for the three months ended June 30, 2018 against \$1.0 million for the three month period ended June 30, 2017.

Business Trends

As announced on June 28, 2018, the esteemed Professional Clothing Best Design for Corporate Clothing Award was presented to UGL for the Air Canada entire Image Apparel Program by The Professional Clothing Awards at the European uniform industry's gala event, held in London, England. The Professional Clothing Awards recognize and reward exceptional workwear, corporate clothing and personal protective equipment providers from around the world. This award follows UGL's earlier receipt of the the Image of the Year Award in the "Transportation – People" category for its involvement in the design and production of the Air Canada new uniform and the highly prestigious "Best of the Best" Award presented to the highest scoring entry in recognition of overall excellence from the North American Association of Uniform Manufacturers and Distributors.

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UGL's second largest airline account, Alaska Airlines, recently unveiled its new custom uniforms collection and is scheduled to officially rollout its new uniforms to its employees starting in late 2019. UGL will be responsible for all aspects of the program including manufacturing, quality, safety, inventory planning, online ordering, customer service, and warehouse and distribution. These successes have led to interest from other companies in the North American airline sector and the Company is presently pursuing these new opportunities.

With \$52.5 million in firm contracts and options on hand as at June 30, 2018, the Peerless business segment is well positioned to increase revenues and profitability over the balance of fiscal 2018.

LIQUIDITY

Unisync has established two operating loan facilities totalling \$18.5 million from a Canadian chartered bank. The maximum amount available under the facilities is based on certain margin requirements and covenants as stipulated in the loan facility agreements.

In June 2014, Unisync obtained a \$6.0 million term loan facility from a Canadian chartered bank to finance the acquisition of Unisync Group Limited. The facility is repayable by way of quarterly principal payments of \$0.3 million with an outstanding balance of \$1.6 million as of the date of this MD&A.

During the year ended September 30, 2016, the Company received shareholder advances of \$2.1 million. Interest, processing and extension fees on the advances are accrued and payable at the time of repayment of the principal amounts of the advances. The principal amounts of the advances and the accrued interest and processing fees thereon were repaid in June 2018.

Excluding the current portion of the term loan facility and the shareholder financing, Unisync had working capital of \$14.2 million and \$7.7 million at June 30, 2018 and September 30, 2017, respectively. As at June 30, 2018, the Company had outstanding foreign exchange contracts of \$nil (September 30, 2017 - nil) and letters of credit of \$nil (September 30, 2017 - \$0.3 million) along with operating loans of \$11.1 million (September 30, 2017: \$14.0 million) under its two operating loan facilities.

Capital expenditures on tangible and intangible assets for the three months ended June 30, 2018 of \$0.3 million were unchanged from the prior year's third quarter. Capital expenditures over the next twelve months will be primarily dedicated to the implementation of a new company wide Enterprise Resource Planning ("ERP") system to enhance customer service, facilitate the flow of information and allow for greater standardization of processes across the organization. The software and implementation will be provided by a leading ERP provider to the North American garment industry. The estimated net cost of the project is approximately \$1.0 million and will be recorded as a capital expenditure when the software is put in use.

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SHARE CAPITAL

The following table sets out the share capitalization of the Company as at June 30, 2018 and the date of this MD&A.

Description	Authorized	Outstanding as at June 30, 2018	Outstanding as at the date of this MD&A
Common voting shares	Unlimited	13,343,698	13,343,698
Stock Options	1,328,770	1,225,000	1,225,000
Class A Preferred Shares	Unlimited in series	Nil	Nil

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

Measurement Uncertainty

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

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

CHANGE IN ACCOUNTING POLICIES

Accounting standards issued but not yet applied

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

FORWARD-LOOKING INFORMATION

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

- the Company's plan to expand into other segments of the garment industry and/or to add established revenue producing businesses as stated in the Business Strategy section;

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- the Company's expectation of continued profitability in the recording of the benefit of income tax losses not previously recognized as noted in the Results for the quarter ended June 30, 2018 versus the quarter ended June 30, 2017 section
- that the UGL segment will pursue new accounts in the North American airline sector following the successful rollout of new uniforms kits to its largest airline account's uniformed employees in the second quarter of 2018 as outlined in the Business Trends section;

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

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

RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2018, interest, processing and extension fees of \$51,951 were paid (June 30, 2017 – \$39,374 accrued) on \$792,500 of shareholder advances that were provided by Bruce Aunger, Darryl Eddy, Douglas Good, and Michael O'Brian, members of the Company's board of directors. Albert El Tasi, the Company's minority partner in the Peerless segment received an income allocation of \$27,377 (June 30, 2017 - \$145,571) and the Company paid rent of \$12,000 (June 30, 2017 - \$11,500) for the Company's facility in Carleton Place, Ontario to a corporation which is owned by Terry Perkins, the former owner and continuing Vice President of UGL.

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

INVESTOR RELATIONS

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

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