

Condensed interim consolidated financial statements of

# **Unisync Corp.**

As at and for the three and nine month period ended June 30, 2018

# Unisync Corp.

June 30, 2018

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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 nine months ended June 30, 2018.

# Unisync Corp.

Condensed interim consolidated statements of comprehensive income (loss)

For the three and nine months ended June 30, 2018 and June 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30 2018	June 30 2017	June 30 2018	June 30 2017
	\$	\$	\$	\$
<b>Revenue</b>	<b>15,016,966</b>	17,304,867	<b>65,018,986</b>	45,462,422
Direct expenses (Note 15)	<b>11,870,392</b>	14,113,420	<b>47,395,020</b>	37,513,572
General and administrative expenses (Note 15)	<b>2,061,636</b>	2,205,933	<b>6,497,406</b>	6,134,616
Depreciation and amortization	<b>236,345</b>	209,040	<b>695,724</b>	607,691
	<b>848,593</b>	776,474	<b>10,430,836</b>	1,206,543
Interest expense	<b>277,405</b>	180,229	<b>836,266</b>	611,395
Share-based payment (Note 13)	<b>78,691</b>	71,679	<b>276,457</b>	221,155
<b>Net income before income taxes</b>	<b>492,497</b>	524,566	<b>9,318,113</b>	373,993
Income tax expense (recovery) (Note 14)	<b>(1,525,667)</b>	120,103	<b>817,590</b>	86,372
<b>Net income and total comprehensive income</b>	<b>2,018,164</b>	404,463	<b>8,500,523</b>	287,621
<b>Attributable to</b>				
Unisync Corp. shareholders	<b>1,990,787</b>	258,892	<b>8,360,121</b>	(13,626)
Minority partner	<b>27,377</b>	145,571	<b>140,402</b>	301,247
	<b>2,018,164</b>	404,463	<b>8,500,523</b>	287,621
<b>Net income per share attributable to Unisync Corp. shareholders</b>				
Basic	<b>0.15</b>	0.02	<b>0.63</b>	(0.00)
Diluted	<b>0.15</b>	0.02	<b>0.62</b>	(0.00)
<b>Weighted average number of shares</b>	<b>13,337,764</b>	13,337,698	<b>13,337,720</b>	13,331,654
<b>Diluted weighted number of shares outstanding</b>	<b>13,448,981</b>	13,447,861	<b>13,450,803</b>	13,429,406

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Unisync Corp.

Condensed interim consolidated statements of financial position

As at June 30, 2018 and September 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2018	September 30, 2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	-	604,903
Trade and other receivables	6,382,542	9,250,507
Inventory (Note 5)	22,391,163	35,859,148
Prepaid expenses	3,082,564	2,819,025
	<b>31,856,269</b>	<b>48,533,583</b>
Non-current assets		
Cash surrender value of life insurance policy	84,221	84,221
Property, plant and equipment (Note 6)	3,865,102	4,082,075
Deferred tax asset (Note 14)	457,227	1,986,548
Intangible assets (Note 7)	1,297,195	1,456,439
Goodwill (Note 8)	3,233,942	3,233,942
	<b>40,793,956</b>	<b>59,376,808</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan (Note 9)	11,077,064	14,043,005
Trade payables and accrued liabilities	5,363,293	4,437,649
Provision for income taxes (Note 14)	-	723,287
Deferred revenue	1,197,431	21,463,620
Current portion of term loan (Note 9)	1,200,000	1,425,206
Current portion of note payable (Note 10)	-	144,924
Shareholder advances (Note 11)	-	2,928,001
	<b>18,837,788</b>	<b>45,165,692</b>
Non-current liabilities		
Term loan (Note 9)	364,794	1,257,294
Due to minority partner (Note 12)	1,500,000	1,500,000
	<b>20,702,582</b>	<b>47,922,986</b>
Commitments and contingencies (Note 16)		
<b>Equity</b>		
Share capital (Note 13)	11,704,143	11,689,743
Share-based payment reserve	1,186,792	910,335
Retained earnings (Deficit)	7,224,830	(1,135,291)
Equity attributable to Unisync Corp. shareholders	20,115,765	11,464,787
Deficit attributable to minority partner	(24,391)	(10,965)
	<b>20,091,374</b>	<b>11,453,822</b>
	<b>40,793,956</b>	<b>59,376,808</b>

Approved by the Board

(Signed) Douglas F. Good, Douglas F. Good, Director

(Signed) Bruce W. Aunger, Bruce W. Aunger, Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Unisync Corp.

## Condensed interim consolidated statements of changes in equity

For the three and nine months ended June 30, 2018 and June 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

	Capital stock		Share-based payment reserve	Retained Earnings (Deficit)	Equity attributable to Unisync Corp. shareholders	Minority Interest	Total equity
	Shares	Amount					
		\$	\$	\$	\$	\$	\$
<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	-	-	221,155	-	221,155	-	221,155
Distribution to minority partner	-	-	-	-	-	(272,689)	(272,689)
Net income and total comprehensive income	-	-	-	(13,626)	(13,626)	301,247	287,621
<b>Balance,</b>							
<b>June 30, 2017</b>	<b>13,337,698</b>	<b>11,689,743</b>	<b>859,386</b>	<b>(1,837,939)</b>	<b>10,711,190</b>	<b>11,941</b>	<b>10,723,131</b>
<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>
Shares issued on exercise of stock options (Note 14 (c))	6,000	14,400	-	-	14,400	-	14,400
Share-based payment	-	-	276,457	-	276,457	-	276,457
Distribution to minority partner	-	-	-	-	-	(153,828)	(153,828)
Net income and total comprehensive income	-	-	-	8,360,121	8,360,121	140,402	8,500,523
<b>Balance,</b>							
<b>June 30, 2018</b>	<b>13,343,698</b>	<b>11,704,143</b>	<b>1,186,792</b>	<b>7,224,830</b>	<b>20,115,765</b>	<b>(24,391)</b>	<b>20,091,374</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

# Unisync Corp.

## Condensed interim consolidated statements of cash flows

For the three and nine months ended June 30, 2018 and June 30, 2017

(Expressed in Canadian dollars)

	three months ended		nine months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income	2,018,164	404,463	8,500,523	287,621
Adjustments for:				
Interest expense	277,405	180,229	836,266	611,395
Income tax expense (recovery)	(1,525,667)	120,103	817,590	86,372
Income taxes paid	-	-	(11,557)	(31,024)
Depreciation and amortization	236,345	209,040	695,724	607,691
Share-based payment	78,691	71,679	276,457	221,155
	1,084,938	985,514	11,115,003	1,783,210
Changes in non-cash working capital items				
Trade and other receivables	3,168,597	(1,700,209)	2,867,965	(796,224)
Inventory	2,011,521	(5,587,811)	13,467,985	(7,050,818)
Prepaid expenses	(528,847)	1,924,309	(263,538)	(3,996,768)
Trade payables and accrued liabilities	(1,804,690)	(861,649)	925,644	(148,569)
Deferred revenue	330,664	9,624,674	(20,266,189)	22,774,142
	4,262,183	4,384,828	7,846,870	12,564,973
<b>Investing activities</b>				
Purchase of property, plant and equipment	(46,665)	(186,652)	(81,467)	(213,953)
Purchase of intangible assets	(221,338)	(108,728)	(238,040)	(417,326)
	(268,003)	(295,380)	(319,507)	(631,279)
<b>Financing activities</b>				
Increase (decrease) in operating loan	(666,891)	(3,366,318)	(2,965,941)	(9,960,946)
Term loan repayments	(300,000)	(300,000)	(1,125,206)	(900,000)
Repayment of shareholder advances	(3,313,755)	-	(3,313,755)	-
Note payment	(49,177)	(45,885)	(144,924)	(134,826)
Interest paid	(144,447)	(73,145)	(443,012)	(288,839)
Distributions to minority partner	(33,614)	(141,437)	(153,828)	(272,689)
Proceeds on exercise of stock options	14,400	-	14,400	90,000
	(4,493,484)	(3,926,785)	(8,132,266)	(11,467,300)
Net cash inflows (outflows)	(499,304)	162,663	(604,903)	466,394
Cash, beginning of period	499,304	364,559	604,903	60,828
<b>Cash, end of period</b>	-	527,222	-	527,222

The accompanying notes are an integral part of these condensed interim consolidated financial statements

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(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 ("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 operations of Unisync Group Limited of Mississauga, Ontario, Carleton Uniforms Inc. ("Carleton") of Carleton Place, Ontario and Omega Uniforms Systems Ltd. ("Omega") 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, 2017. 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, 2017 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 July 30, 2018.

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

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

*IAS 28 - Investments in Associates and Joint Ventures*

*IAS 40 - Investment Property*

*IFRS 2 - Share-based Payment*

*IFRS 9 - Financial Instruments*

*IFRS 15 - Revenue from Contracts with Customers*

*IFRS 16 - Leases*

*IFRS 17 - Insurance Contracts*

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

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

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#### 4. 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 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, 2017. 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 intangible asset, and the appropriate discount rate.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(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>June 30</b>	September 30,
	<b>2018</b>	2017
	\$	\$
Raw materials	<b>2,474,267</b>	3,475,405
Work in process	<b>1,395,069</b>	1,543,804
Finished goods	<b>18,521,827</b>	30,839,939
	<b>22,391,163</b>	35,859,148

Cost of inventories recognized as an expense during the nine months ended June 30, 2018 amounted to \$39,160,112 (June 30, 2017 - \$31,590,261). During the nine months ended June 30, 2018, inventory was written down by \$126,260 (June 30, 2017 - \$609,191) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value was \$358,213 at June 30, 2018 (at September 2017 - \$639,813), with the remaining inventory recorded at cost.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 6. Property, plant and equipment

								June 30 2018
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2017	422,730	2,695,000	1,602,366	658,330	114,089	109,570	341,853	5,943,938
Additions	-	-	9,350	11,034	43,833	-	17,250	81,467
Disposals	-	-	-	-	-	-	-	-
<b>Balance at June 30, 2018</b>	<b>422,730</b>	<b>2,695,000</b>	<b>1,611,716</b>	<b>669,364</b>	<b>157,922</b>	<b>109,570</b>	<b>359,103</b>	<b>6,025,405</b>
<i>Accumulated depreciation</i>								
Balance at September 30, 2017	-	412,871	766,243	425,841	54,676	19,609	182,623	1,861,863
Depreciation	-	42,790	113,407	48,107	14,923	20,241	58,972	298,440
Disposals	-	-	-	-	-	-	-	-
<b>Balance at June 30, 2018</b>	<b>-</b>	<b>455,661</b>	<b>879,650</b>	<b>473,948</b>	<b>69,599</b>	<b>39,850</b>	<b>241,595</b>	<b>2,160,303</b>
<i>Net carrying amount</i>								
<b>At June 30, 2018</b>	<b>422,730</b>	<b>2,239,339</b>	<b>732,066</b>	<b>195,416</b>	<b>88,323</b>	<b>69,720</b>	<b>117,508</b>	<b>3,865,102</b>
								September 30 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
Property plant and equipment	-	-	158,352	74,483	18,211	94,894	34,009	379,949
Disposals	-	-	-	-	-	(65,813)	(49,750)	(115,563)
<b>Balance at September 30, 2017</b>	<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)
<b>Balance at September 30, 2017</b>	<b>-</b>	<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>								
<b>At September 30, 2017</b>	<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>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 7. Intangible assets

	June 30 2018			
	\$			
	Computer software	Intangible assets from Carleton acquisition	Standards certification	Total
<i>Cost</i>				
Balance at September 30, 2017	2,032,044	251,440	63,137	2,346,621
Additions	238,040	-	-	238,040
<b>Balance at June 30, 2018</b>	<b>2,270,084</b>	<b>251,440</b>	<b>63,137</b>	<b>2,584,661</b>
<i>Accumulated amortization</i>				
Balance at September 30, 2017	797,026	85,814	7,342	890,182
Amortization	360,946	26,867	9,471	397,284
<b>Balance at June 30, 2018</b>	<b>1,157,972</b>	<b>112,681</b>	<b>16,813</b>	<b>1,287,466</b>
<i>Net carrying amount</i>				
<b>At June 30, 2018</b>	<b>1,112,112</b>	<b>138,759</b>	<b>46,324</b>	<b>1,297,195</b>
	September 30 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
Balance at September 30, 2017	2,032,044	251,440	63,137	2,346,621
<i>Accumulated amortization</i>				
Balance at September 30, 2016	378,984	49,896	-	428,880
Amortization	418,042	35,918	7,342	461,302
Balance at September 30, 2017	797,026	85,814	7,342	890,182
<i>Net carrying amount</i>				
At September 30, 2017	1,235,018	165,626	55,795	1,456,439

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 8. Goodwill

	<b>June 30 2018</b>
	\$
<i>Cost</i>	
Balance at September 30, 2017	<b>3,233,942</b>
Balance at June 30, 2018	<b>3,233,942</b>
	September 30 2017
	\$
<i>Cost</i>	
Balance at September 30, 2016	3,233,942
Balance at September 30, 2017	3,233,942

The goodwill arose on the 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.

### 9. Loan facilities

	<b>June 30, 2018</b>	September 30, 2017
	\$	\$
Operating loan (a)	<b>11,077,064</b>	14,043,005
Current portion of term loan (b)	<b>1,200,000</b>	1,425,206
Term loan (b)	<b>364,794</b>	1,257,294
	<b>12,641,858</b>	16,725,505

Changes to the Company's debt obligations for the nine month period ended June 30, 2018 are as follows:

	<b>June 30 2017</b>
	\$
Balance at September 30, 2017	<b>16,725,505</b>
Repayment of operating loan	<b>(2,965,941)</b>
Repayment of term loan	<b>(1,125,206)</b>
Amortization of financing fees	<b>7,500</b>
Balance at June 30, 2018	<b>12,641,858</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(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 June 30, 2018, combined drawings under the operating loan facilities were \$11,077,064 (September 30, 2017 - \$14,043,005). 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. In addition, the Company has a US\$3,240,000 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 June 30, 2018, 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% to 1.5% depending upon the ratio of debt to tangible net assets. 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 June 30, 2018, the Company was in compliance with the covenants of its term loan facility.

### 10. Note payable

	June 30, 2018	September 30, 2017
	\$	\$
Current portion of note payable	-	144,924
	-	144,924

The vendors of Carleton received consideration that included a \$600,000 note. The note is interest free, unsecured and was repaid 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.

### 11. Shareholder advances

	June 30 2018	September 30 2017
	\$	\$
Shareholder advances	-	2,105,000
Accrued interest and processing fees	-	823,001
	-	2,928,001

The Company received bank postponed shareholder advances totalling \$2,105,000 in December 2015 and January 2016. The advances bore interest at 8% per annum and were subject to a processing fee of 4% to 5% and extension fees of 5% to 12%. The principal amounts of the advances and the accrued interest, processing and extension fees thereon were repaid in June 2018.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

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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 June 30, 2018 and September 30, 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	
	Common Shares	Amount \$
Balance, September 30, 2016	13,287,698	11,599,743
Shares issued on exercise of stock options (Note 13 (c))	50,000	90,000
Balance, September 30, 2017	13,337,698	11,689,743
Shares issued on exercise of stock options (Note 13 (c))	6,000	14,400
<b>Balance, June 30, 2018</b>	<b>13,343,698</b>	<b>11,704,143</b>

The Common shares were reclassified from Class B Common shares to Common shares on April 20, 2018.

#### (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 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.

On October 2, 2017 and on November 20, 2017, 200,000 and 80,000 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.

On April 23, 2018, 25,000 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 nine months ended June 30, 2018, 6,000 options were exercised at a weighted average exercise price of \$2.40 (June 30, 2017 – 50,000 options were exercised at a weighted average exercise price of \$1.80) and 104,000 options were forfeited (June 30, 2017 – 174,000).

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

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(Unaudited)

### 13. Capital stock (continued)

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

The following table summarizes stock options outstanding:

	nine months ended		nine months ended	
	June 30, 2018		June 30, 2017	
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise		exercise
		price		price
		\$		\$
Outstanding, beginning of period	1,030,000	2.01	985,000	1.75
Granted during the period	305,000	2.99	500,000	2.48
Exercised during the period	(6,000)	2.40	(50,000)	1.80
Forfeited during the period	(104,000)	1.90	(174,000)	1.75
Outstanding, end of period	1,225,000	2.26	1,261,000	2.04

Based on the above vesting schedule, a stock option compensation expense of \$276,457 was recognized for the nine month period ended June 30, 2018 (June 30, 2017 - \$221,155) 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:

	nine months ended	nine months ended
	June 30	June 30
	2018	2017
	\$	\$
Income tax (recovery) expense	(711,730)	(200,579)
Deferred tax expense	1,529,320	286,951
Income tax expense	817,590	86,372

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 14. 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:

	nine months ended June 30 2018	nine months ended June 30 2017
	\$	\$
Net income before income taxes	9,318,113	373,993
Tax rate	26.2%	26.4%
	2,444,365	98,725
Taxes attributable to minority partner	(36,837)	(78,395)
Benefit of losses not previously recognized	(1,671,507)	-
True-ups	2,130	19
Permanent differences	79,439	66,023
Income tax expense	817,590	86,372

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

	June 30 2018	September 30 2017
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	1,158,883	2,710,458
Deferred tax liabilities		
Property, plant and equipment	(701,656)	(723,910)
	457,227	1,986,548

The Company has non-capital losses of approximately \$4,753,000 (at September 30, 2017 - \$10,595,000) that can be applied against future years' taxable income for Canadian income tax purposes. The use of these losses expires at various dates between 2031 and 2038.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 15. Expenses by nature

	nine months ended June 30 2018	nine months ended June 30 2017
	\$	\$
<b>Direct expenses:</b>		
Materials	35,839,721	24,883,322
Wages and benefits	5,437,873	4,909,958
Delivery	2,396,549	1,335,016
Subcontract fees	2,093,601	4,786,507
Rent, utilities and other property costs	1,390,189	1,344,409
Insurance	78,373	45,553
Other	158,714	208,807
	<b>47,395,020</b>	<b>37,513,572</b>
<b>General and administrative expenses:</b>		
Wages and benefits	4,203,821	4,130,574
Data services, system maintenance, telecommunications and software licenses	631,504	728,381
Legal, bank, insurance and professional services	624,655	435,051
Advertising, marketing and other promotion costs	494,982	352,599
Rent, utilities and other property costs	128,746	133,133
Other	413,698	354,878
	<b>6,497,406</b>	<b>6,134,616</b>

### 16. 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	247,726
2019	971,548
2020	832,967
2021	585,470
Thereafter	-
	<b>2,637,711</b>

- (b) At June 30, 2018, the Company had \$nil (September 30, 2017 - \$324,887) in letters of credit outstanding.
- (c) The Company has selected an experienced software provider to the North American garment industry to implement a new Enterprise Resource Planning computer system over the next nine to twelve months at an approximate net capital cost of \$1,000,000.
- (d) 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.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 17. Economic dependence

During the nine month period ended June 30, 2018, revenue from the Canadian military and other Canadian governmental agencies accounted for 13% of total revenue (June 30, 2017 - 36%) and revenue from an airline industry customer accounted for 49% of total revenue (June 30, 2017 - 15%).

### 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.

				June 30 2018
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	9,095,681	55,925,692	(2,387)	<b>65,018,986</b>
Direct expenses	6,940,248	40,457,159	(2,387)	<b>47,395,020</b>
General and administrative expenses	676,971	5,267,911	552,524	<b>6,497,406</b>
Depreciation and amortization	47,993	587,287	60,444	<b>695,724</b>
	1,430,469	9,613,335	(612,968)	<b>10,430,836</b>
Interest expense	26,448	343,492	466,326	<b>836,266</b>
Share based payment	-	-	276,457	<b>276,457</b>
Net income (loss) before income taxes	1,404,021	9,269,843	(1,355,751)	<b>9,318,113</b>
Capital expenditures on property, plant and equipment	35,401	46,066	-	<b>81,467</b>
Capital expenditures on intangible assets	-	238,040	-	<b>238,040</b>
Total assets	6,556,432	30,583,381	3,654,143	<b>40,793,956</b>
Property, plant and equipment	1,011,028	788,112	2,065,962	<b>3,865,102</b>
Intangible assets	-	1,297,195	-	<b>1,297,195</b>
Goodwill	-	647,942	2,586,000	<b>3,233,942</b>
Liabilities, excluding due to minority partner	1,693,267	17,391,074	96,092	<b>19,180,433</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

### 18. Segmented information (continued)

			June 30 2017	
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	20,190,533	25,274,217	(2,328)	<b>45,462,422</b>
Direct expenses	15,927,861	21,588,039	(2,328)	<b>37,513,572</b>
General and administrative expenses	1,044,544	4,709,045	381,027	<b>6,134,616</b>
Depreciation and amortization	47,993	481,089	78,609	<b>607,691</b>
	3,170,135	(1,503,956)	(459,636)	<b>1,206,543</b>
Interest expense	157,664	58,868	394,863	<b>611,395</b>
Share based payment	-	-	221,155	<b>221,155</b>
Net income before income taxes	3,012,471	(1,562,824)	(1,075,654)	<b>373,993</b>
Capital expenditures on property, plant and equipment	20,107	193,846	-	<b>213,953</b>
Capital expenditures on intangible assets	-	417,326	-	<b>417,326</b>
Total assets	9,352,171	34,537,107	9,012,699	<b>52,901,977</b>
Property, plant and equipment	1,059,725	828,227	2,152,608	<b>4,040,560</b>
Intangible assets	-	1,469,262	-	<b>1,469,262</b>
Goodwill	-	647,942	2,586,000	<b>3,233,942</b>
Liabilities, excluding due to minority partner	4,158,800	28,169,424	8,350,622	<b>40,678,846</b>