

Condensed interim consolidated financial statements of

Unisync Corp.

As at and for the three and nine month period ended June 30, 2019

Unisync Corp.

June 30, 2019

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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, 2019.

Unisync Corp.

Condensed interim consolidated statements of comprehensive income (loss)

For the three and nine months ended June 30, 2019 and June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30 2019	June 30 2018	June 30 2019	June 30 2018
	\$	\$	\$	\$
Revenue	21,587,052	15,016,966	57,605,993	65,018,986
Direct expenses (Note 14)	18,175,875	11,870,392	48,115,614	47,395,020
General and administrative expenses (Note 14)	4,568,776	2,061,636	11,886,712	6,497,406
Depreciation and amortization	493,681	236,345	1,441,727	695,724
	(1,651,280)	848,593	(3,838,060)	10,430,836
Interest expense	324,154	277,405	1,021,754	836,266
Share-based payment (Note 12)	133,416	78,691	236,714	276,457
Net income (loss) before income taxes	(2,108,850)	492,497	(5,096,528)	9,318,113
Income tax (recovery) expense (Note 13)	(540,804)	(1,525,667)	(1,294,120)	817,590
Net income (loss) and total comprehensive income (loss)	(1,568,046)	2,018,164	(3,802,408)	8,500,523
Attributable to				
Unisync Corp. shareholders	(1,629,169)	1,990,787	(3,859,416)	8,360,121
Minority partner	61,123	27,377	57,008	140,402
	(1,568,046)	2,018,164	(3,802,408)	8,500,523
Net income (loss) per share attributable to Unisync Corp. shareholders				
Basic	(0.09)	0.15	(0.22)	0.63
Diluted	(0.09)	0.15	(0.22)	0.62
Weighted average number of shares	17,537,525	13,337,764	17,537,525	13,337,720
Diluted weighted number of shares outstanding	17,834,279	13,448,981	17,794,968	13,450,803

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, 2019 and September 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2019	September 30, 2018
	\$	\$
Assets		
Current assets		
Cash	615,487	212,296
Restricted cash	-	10,782,551
Trade and other receivables	11,271,881	4,657,242
Recovery of income taxes	279,804	-
Inventory (Note 6)	34,354,720	21,635,292
Prepaid expenses	5,206,778	2,918,747
	51,728,670	40,206,128
Non-current assets		
Cash surrender value of life insurance policy	85,403	85,403
Property, plant and equipment (Note 7)	8,305,008	3,810,676
Deferred tax asset (Note 13)	401,475	920,377
Long-term prepaid expense (Note 15 (c))	1,765,523	980,618
Intangible assets (Note 8)	7,721,093	1,195,458
Goodwill (Note 9)	6,384,798	3,233,942
	76,391,970	50,432,602
Liabilities		
Current liabilities		
Operating loan (Note 10)	20,417,066	11,969,946
Trade payables and accrued liabilities	5,489,283	5,229,700
Provision for income taxes	-	23,037
Deferred revenue	12,295,793	1,055,885
Current portion of term loans (Note 10)	1,143,000	1,567,294
	39,345,142	19,845,862
Non-current liabilities		
Term loans (Note 10)	5,801,497	-
Due to minority partner (Note 11)	1,500,000	1,500,000
	46,646,639	21,345,862
Commitments and contingencies (Note 15)		
Equity		
Subscription receipts, net of issue costs (note 12)	-	10,234,215
Share capital (Note 12)	26,201,993	11,704,143
Share-based payment reserve	1,488,324	1,251,610
Retained earnings	2,078,783	5,938,199
Equity attributable to Unisync Corp. shareholders	29,769,100	29,128,167
Deficit attributable to minority partner	(23,769)	(41,427)
	29,745,331	29,086,740
	76,391,970	50,432,602

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 nine months ended June 30, 2019 and June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

	Subscription receipts		Capital stock		Share-based payment reserve	Retained Earnings (Deficit)	Equity attributable to Unisync Corp. shareholders	Minority Interest	Total equity
	Receipts	Amount	Common shares	Amount					
		\$		\$	\$	\$	\$	\$	\$
Balance,									
September 30, 2017	-	-	13,337,698	11,689,743	910,335	(1,135,291)	11,464,787	(10,965)	11,453,822
Shares issued on exercise of stock options (Note 12 (d))			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
Balance,									
June 30, 2018	-	-	13,343,698	11,704,143	1,186,792	7,224,830	20,115,765	(24,391)	20,091,374
Balance,									
September 30, 2018	2,921,100	10,234,215	13,343,699	11,704,143	1,251,610	5,938,199	18,893,952	(41,427)	29,086,740
Subscription receipts converted to common shares (Note 12 (c))	(2,921,100)	(10,234,215)	2,921,100	10,234,215	-	-	10,234,215	-	-
Common shares issued to Utility shareholders (Note 5)			1,272,727	4,263,635	-	-	4,263,635	-	4,263,635
Share-based payment			-	-	236,714	-	236,714	-	236,714
Distribution to minority partner			-	-	-	-	-	(39,350)	(39,350)
Net income (loss) and total comprehensive income (loss)			-	-	-	(3,859,416)	(3,859,416)	57,008	(3,802,408)
Balance,									
June 30, 2019	-	-	17,537,526	26,201,993	1,488,324	2,078,783	29,769,100	(23,769)	29,745,331

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, 2019 and June 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Operating activities				
Net income (loss)	(1,568,046)	2,018,164	(3,802,408)	8,500,523
Adjustments for:				
Interest expense	324,154	277,405	1,021,754	836,266
Income tax expense (recovery)	(540,804)	(1,525,667)	(1,294,120)	817,590
Income taxes paid	38,632	-	(138,423)	(11,557)
Depreciation and amortization	493,681	236,345	1,441,727	695,724
Share-based payment	133,416	78,691	236,714	276,457
	(1,118,967)	1,084,938	(2,534,756)	11,115,003
Changes in non-cash working capital items				
Trade and other receivables	(563,560)	3,168,597	(3,517,156)	2,867,965
Inventory	(4,657,101)	2,011,521	(5,186,442)	13,467,985
Prepaid expenses	26,249	(528,847)	(1,705,562)	(263,538)
Trade payables and accrued liabilities	(322,226)	(1,804,690)	(1,418,510)	925,644
Deferred revenue	1,522,572	330,664	11,239,908	(20,266,189)
	(5,113,033)	4,262,183	(3,122,518)	7,846,870
Investing activities				
Acquisition of 9334-0438 Quebec Inc. (Note 5)	-	-	(11,107,626)	-
Purchase of property, plant and equipment	(175,140)	(46,665)	(399,867)	(81,467)
Purchase of long-term prepaid expenses	(366,675)	-	(784,905)	-
Purchase of intangible assets	(204,153)	(221,338)	(371,382)	(238,040)
	(745,968)	(268,003)	(12,663,780)	(319,507)
Financing activities				
Increase (decrease) in operating loan	6,103,428	(666,891)	8,159,925	(2,965,941)
New term loans advances	-	-	7,860,000	-
New term loans repayments	(285,750)	-	(857,250)	-
New term loans financing costs	-	-	(58,253)	-
Repayment of term loan	-	(300,000)	(1,574,794)	(1,125,206)
Repayment of Utility term loans (Note 5)	-	-	(7,015,086)	-
Use of restricted cash	-	-	10,782,551	-
Repayment of shareholder advances	-	(3,313,755)	-	(3,313,755)
Note payment	-	(49,177)	(54,000)	(144,924)
Interest paid	(324,154)	(144,447)	(1,014,254)	(443,012)
Distributions to minority partner	(41,044)	(33,614)	(39,350)	(153,828)
Proceeds on exercise of stock options	-	14,400	-	14,400
	5,452,480	(4,493,484)	16,189,489	(8,132,266)
Net cash inflows (outflows)	(406,521)	(499,304)	403,191	(604,903)
Cash, beginning of period	1,022,008	499,304	212,296	604,903
Cash, end of period	615,487	-	615,487	-

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, 2019

(Expressed in Canadian dollars)

(Unaudited)

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 1328, 885 West Georgia 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 17.

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, Utility Garments Inc. ("Utility") of Saint-Laurent, Quebec and Unisync (Nevada) LLC of Henderson, Nevada. During the period ended June 30, 2019, Carleton Uniforms Inc. ("Carleton") of Carleton Place, Ontario and Omega Uniforms Systems Ltd. ("Omega") of Vancouver, British Columbia were each dissolved and the assets were transferred to and the liabilities were assumed by Unisync Group Limited. 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 and Carleton Place, Ontario, Vancouver, British Columbia, Saint-Laurent, Quebec, Farmingdale, New Jersey and Henderson, Nevada.

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, 2018. 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, 2018 as filed on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on August 13, 2019.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

3. Accounting standards issued but not yet applied

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

IFRIC 23 – Uncertainty over Income Tax Treatments

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.

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 12). 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, 2018. 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.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

4. Critical accounting estimates and judgments (continued)

(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.

(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.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

5. Business combination

On October 1, 2018, the Company acquired a 100% equity interest in 9334-0461 Quebec Inc. and its wholly owned subsidiary, Utility Garments Inc. ("Utility"), for consideration of \$11,107,627 in cash, 1,272,727 Common shares at a market price of \$3.35 per share and the repayment of all bank loans of Utility. Based in Saint-Laurent, Quebec, Utility is a manufacturer and distributor of uniforms and career apparel.

	\$
Assets acquired	
Trade and other receivables	3,097,483
Income tax receivable	138,699
Inventory	7,532,986
Prepaid expenses	582,471
Property, plant and equipment	4,495,160
Intangible assets - customer relationships	7,195,285
Goodwill	3,150,856
	<hr/> 26,192,940
Less: Liabilities assumed	
Operating loan	287,195
Trade payables and accrued liabilities	1,678,092
Term loan	7,015,086
Note payable	54,000
Deferred income tax liability	1,787,305
	<hr/> 15,371,262
Net assets acquired	<hr/> 15,371,262
Consideration:	
Cash	11,107,627
Common shares	4,263,635
	<hr/> 15,371,262

The acquisition of Utility has been accounted for as business combination in accordance with *IFRS 3, Business Combinations* and the purchase price consideration was allocated to the fair value of assets acquired and liabilities assumed. Transaction costs that were incurred in connection with the acquisition, other than costs associated with the issuance of debt and equity, were expensed as incurred in the year ended September 30, 2018. The results of operations of Utility are included in these consolidated financial statements from the date of acquisition.

From the date of acquisition, Utility has contributed \$15.6 million of revenue and \$1.1 million of earnings before interest and taxes. The results of this acquisition are included under the operations of the UGL segment provided in Note 17. The primary reason for the business combination was to add Utility's design team and supporting in-house manufacturing capabilities and to better service Quebec clients and National customers with operations in Quebec.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

6. Inventory

	June 30 2019	September 30, 2018
	\$	\$
Raw materials	3,769,554	2,998,558
Work in process	1,739,104	1,066,222
Finished goods	28,846,062	17,570,512
	34,354,720	21,635,292

Cost of inventories recognized as an expense during the nine months ended June 30, 2019 amounted to \$37,350,984 (June 30, 2018 - \$39,160,112). During the nine months ended June 30, 2019, inventory was written down by \$307,213 (June 30, 2018 - \$126,260) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value was \$310,341 at June 30, 2019 (at September 30, 2018 – \$139,094), with the remaining inventory recorded at cost.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

7. Property, plant and equipment

	June 30 2019							
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2018	422,730	2,695,000	1,611,716	669,264	168,156	109,570	407,387	6,083,823
Property, plant and equipment acquired from Utility	-	4,400,000	44,432	24,514	19,846	6,368	-	4,495,160
Additions	-	409	199,393	91,851	59,613	-	48,601	399,867
Disposals	-	-	-	-	-	-	-	-
Balance at June 30, 2019	422,730	7,095,409	1,855,541	785,629	247,615	115,938	455,988	10,978,850
<i>Accumulated depreciation</i>								
Balance at September 30, 2018	-	469,924	927,860	481,739	67,914	46,597	279,113	2,273,147
Depreciation	-	154,344	91,853	58,655	28,786	23,478	43,579	400,695
Disposals	-	-	-	-	-	-	-	-
Balance at June 30, 2019	-	624,268	1,019,713	540,394	96,700	70,075	322,692	2,673,842
<i>Net carrying amount</i>								
At June 30, 2019	422,730	6,471,141	835,828	245,235	150,915	45,863	133,296	8,305,008
	September 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
Property plant and equipment	-	-	9,350	10,934	54,067	-	65,534	139,885
Disposals	-	-	-	-	-	-	-	-
Balance at September 30, 2018	422,730	2,695,000	1,611,716	669,264	168,156	109,570	407,387	6,083,823
<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	-	57,053	161,617	55,898	13,238	26,988	96,490	411,284
Disposals	-	-	-	-	-	-	-	-
Balance at September 30, 2018	-	469,924	927,860	481,739	67,914	46,597	279,113	2,273,147
<i>Net carrying amount</i>								
At September 30, 2018	422,730	2,225,076	683,856	187,525	100,242	62,973	128,274	3,810,676

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

8. Intangible assets

						June 30 2019
						\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition (note 5)	Standards certification	Total	
<i>Cost</i>						
Balance at September 30, 2018	2,309,374	251,440	-	63,137	2,623,951	
Intangible assets acquired from Utility	-	-	7,195,285	-	7,195,285	
Additions	371,382	-	-	-	371,382	
Balance at June 30, 2019	2,680,756	251,440	7,195,285	63,137	10,190,618	
<i>Accumulated amortization</i>						
Balance at September 30, 2018	1,286,790	121,734	-	19,969	1,428,493	
Amortization	374,783	26,940	629,838	9,471	1,041,032	
Balance at June 30, 2019	1,661,573	148,674	629,838	29,440	2,469,525	
<i>Net carrying amount</i>						
At June 30, 2019	1,019,183	102,766	6,565,447	33,697	7,721,093	
September 30 2018						
						\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition	Standards certification	Total	
<i>Cost</i>						
Balance at September 30, 2017	2,032,044	251,440	-	63,137	2,346,621	
Additions	277,330	-	-	-	277,330	
Balance at September 30, 2018	2,309,374	251,440	-	63,137	2,623,951	
<i>Accumulated amortization</i>						
Balance at September 30, 2017	797,026	85,814	-	7,342	890,182	
Amortization	489,764	35,920	-	12,627	538,311	
Balance at September 30, 2018	1,286,790	121,734	-	19,969	1,428,493	
<i>Net carrying amount</i>						
At September 30, 2018	1,022,584	129,706	-	43,168	1,195,458	

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

9. Goodwill

	June 30 2019
	\$
<i>Cost</i>	
Balance at September 30, 2018	3,233,942
Goodwill on acquisition of Utility (Note 5)	3,150,856
Balance at June 30, 2019	6,384,798

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

Goodwill arose on the acquisitions of Peerless and GP in 2010, the acquisitions of Carleton and Omega in 2015 and the acquisition of Utility on October 1, 2018 as described in Note 5. 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.

10. Loan facilities

	June 30, 2019	September 30, 2018
	\$	\$
Operating loan (a)	20,417,066	11,969,946
Current portion of term loans (b)	1,143,000	1,567,294
Term loans (b)	5,801,497	-
	27,361,563	13,537,240

Changes to the Company's debt obligations for the nine month period ended June 30, 2019 are as follows:

	June 30 2019
	\$
Balance at September 30, 2018	13,537,240
Increase in operating loan	8,159,925
Repayment of Utility operating loan	287,195
New term loans advances	7,860,000
Repayment of term loan	(1,574,794)
Repayments of new term loans	(857,250)
New term loans financing fees	(58,253)
Amortization of financing fees	7,500
Balance at June 30, 2019	27,361,563

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

10. Loan facilities (continued)

- (a) The Company has established two operating loan facilities totalling \$25,500,000 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, 2019, combined drawings under the operating loan facilities were \$20,417,066 (September 30, 2018 - \$11,969,946). 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 at bank prime rate plus 0.5%. In addition, the Company has a foreign exchange loan facility to purchase foreign exchange contracts up to an aggregate of US\$18,000,000, a \$200,000 credit card facility and a \$25,074,250 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, 2019, the Company was in compliance with the covenants of its operating loan facilities.
- (b) On October 1, 2018, the Company established two new term loan facilities, a \$5,000,000 First Capital Loan Facility and a \$2,860,000 Second Capital Loan Facility and repaid its existing term loan. Borrowings under the two new term loan facilities are available by way of prime rate advances or banker's acceptances. Prime rate advances under the new term loan facilities bear interest at bank prime rate plus 0.75%. The First Capital term loan is repayable by way of quarterly principal payments of \$250,000 over a five year period and the Second Capital term loan is repayable by way of quarterly principal payments of \$35,750 over a twenty year period. The term loan facilities are secured by a pledge of the assets owned by the Company and by guarantees from the Company's subsidiaries. As at June 30, 2019, the Company was in compliance with the covenants of its term loan facilities.

11. 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. The notice period is a minimum duration of one year plus one day for a triggering event under the triggering events of the put/call agreement.

12. Capital stock

(a) Authorized

Unlimited number of the following classes of shares:

- Common 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, 2017	13,337,699	11,689,743
Shares issued on exercise of stock options (Note 12 (d))	6,000	14,400
Balance, September 30, 2018	13,343,699	11,704,143
Shares issued from subscription receipts, net of costs (Note 12 (c))	2,921,100	10,234,215
Shares issued to Utility shareholders (Note 5)	1,272,727	4,263,635
Balance, June 30, 2019	17,537,526	26,201,993

Unisync Corp.

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12. Capital stock (continued)

(c) Share issuance

On October 1, 2018, on the satisfaction of the conditions precedent to the completion of the closing of a bought deal private placement of 2,921,100 subscription receipts, the Company received gross proceeds of \$11,110,180, less costs of issuance of \$875,965, from the issue of 2,921,100 common shares.

(d) Stock options

The stock option plan provides that, subject to the requirements of the TSX 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 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.

On April 9, 2019 and on April 23, 2019, 25,000 stock and 200,000 options respectively were granted for a term of five years and vest over four years annually in arrears from the date in which they were granted.

During the nine months ended June 30, 2019, nil options were exercised (June 30, 2018 – 6,000) and 160,000 options were forfeited (June 30, 2018 – 104,000).

The following table summarizes stock options outstanding:

	nine months ended		nine months ended	
	June 30, 2019		June 30, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	1,225,000	2.26	1,030,000	2.01
Granted during the period	225,000	3.55	305,000	2.99
Exercised during the period	-	-	(6,000)	2.40
Forfeited during the period	(160,000)	2.95	(104,000)	1.90
Outstanding, end of period	1,290,000	2.40	1,225,000	2.26

Based on the above vesting schedule, a stock option compensation expense of \$252,773 was recognized for the nine month period ended June 30, 2019 (June 30, 2018 - \$276,457) 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.

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13. 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 June 30 2019	nine months ended June 30 2018
	\$	\$
Income tax (recovery) expense	(25,719)	(711,730)
Deferred tax (recovery) expense	(1,268,900)	1,529,320
Income tax (recovery) expense	(1,294,619)	817,590

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 2019	nine months ended June 30 2018
	\$	\$
Net income (loss) before income taxes	(5,096,528)	9,318,113
Tax rate	26.5%	26.2%
	(1,351,185)	2,444,365
Taxes attributable to minority partner	(15,089)	(36,837)
Benefit of losses not previously recognized	-	(1,671,507)
True-ups	-	2,130
Permanent differences	72,154	79,439
Income tax expense	(1,294,120)	817,590

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

	June 30 2019	September 30 2018
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	2,487,173	1,615,525
Deferred tax liabilities		
Property, plant and equipment	(2,085,698)	(695,148)
	401,475	920,377

The Company has non-capital losses of approximately \$8,985,000 (at September 30, 2018 - \$6,324,000) 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 2039.

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14. Expenses by nature

	nine months ended June 30 2019	nine months ended June 30 2018
	\$	\$
Direct expenses:		
Materials	34,197,504	35,839,721
Wages and benefits	7,315,259	5,437,873
Delivery	2,360,423	2,396,549
Subcontract fees	2,173,740	2,093,601
Rent, utilities and other property costs	1,666,877	1,390,189
Insurance	188,058	78,373
Other	213,753	158,714
	48,115,614	47,395,020
General and administrative expenses:		
Wages and benefits	6,941,271	4,203,821
Legal, bank, insurance and professional services	1,380,083	624,655
Data services, system maintenance, telecommunications and software licenses	1,203,689	631,504
Advertising, marketing and other promotion costs	694,820	494,982
Rent, utilities and other property costs	421,825	128,746
Other	1,245,024	413,698
	11,886,712	6,497,406

15. Commitments and contingencies

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

	\$
remainder of 2019	383,658
2020	1,533,889
2021	1,191,435
2022	619,551
2023	634,887
2024	456,796
beyond 2024	443,084
	5,263,300

- (b) At June 30, 2019, the Company had \$400,000 (September 30, 2018 - \$nil) in letters of credit outstanding.
- (c) The Company is in the process of implementing a new Enterprise Resource Planning computer system. To date the Company has expended \$1,765,523 on the project and has recorded that amount in Long-term prepaid expenses at June 30, 2019. The Company expects to incur no further amount, net of approved government grants, to complete the system implementation over the balance of its September 30, 2019 fiscal year at which time the total capital cost of the project will be recorded as an intangible asset.

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15. Commitments and contingencies (continued)

(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 has countersued the employees for conflict of interest and dishonesty.

16. Economic dependence

During the nine month period ended June 30, 2019, revenue from the Canadian military and other Canadian governmental agencies accounted for 14% of total revenue (June 30, 2018 - 13%) and revenue from an airline industry customer accounted for 21% of total revenue (June 30, 2018 - 49%).

17. 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 2019			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	8,624,089	48,986,477	(4,573)	57,605,993
Direct expenses	6,852,292	40,129,265	1,134,056	48,115,613
General and administrative expenses	1,072,865	9,448,579	1,365,269	11,886,713
Depreciation and amortization	47,993	1,045,747	347,987	1,441,727
	650,939	(1,637,114)	(2,851,885)	(3,838,060)
Interest expense	80,861	934,027	6,866	1,021,754
Share based payment	-	-	236,714	236,714
Net income (loss) before income taxes	570,078	(2,571,141)	(3,095,465)	(5,096,528)
Capital expenditures on property, plant and equipment	63,065	336,813	-	399,878
Capital expenditures on intangible assets	-	371,372	-	371,372
Total assets	8,315,305	54,512,428	13,564,237	76,391,970
Property, plant and equipment	1,010,111	3,764,952	3,529,945	8,305,008
Intangible assets	-	3,998,029	3,723,064	7,721,093
Goodwill	-	1,221,695	5,163,103	6,384,798
Liabilities, excluding due to minority partner	3,474,606	41,179,276	492,757	45,146,639

Unisync Corp.

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June 30, 2019

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(Unaudited)

17. Segmented information (continued)

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

18. Subsequent event

On July 22, 2019, the Company received bank postponed shareholder advances of \$1,750,000. The advances bear interest at 12% per annum and are subject to a processing fee of 2.5%. Interest and the processing fee on the advances are accrued and payable at the time of repayment of the principal amounts of the advances. Repayment of the principal amounts of the advances and the accrued interest and processing fee is due at the earlier of a) March 15, 2020 or b) the occurrence of an event of default. The Company may pre-pay the advances in full or in part at any time prior to the maturity date without penalty or cost provided that a minimum of three months' interest has been paid.