

UNISYNC CORP.

**Management Discussion and Analysis
For the three month period ended June 30, 2019**

Prepared as at August 13, 2019

UNISYNC CORP.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the three month period ended June 30, 2019

BACKGROUND

The following discussion and analysis, prepared as of August 13, 2019, should be read together with the audited consolidated financial statements and the accompanying notes for the year ended September 30, 2018 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three month period ended June 30, 2019 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 are listed and posted for trading on the TSX Exchange (since graduating from the TSXV on January 14, 2019) 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: Peerless Garments LP ("Peerless") of Winnipeg, Manitoba and Unisync Group Limited ("UGL") of Mississauga, Ontario. 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, Purolator, Shoppers Drug Mart, Sobeys and Tim Hortons.

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 Canadian government sector and in the North American corporate sector.

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. In October 2018, Unisync acquired Utility Garments Inc. ("Utility") of Saint-Laurent, Quebec and in January 2019, the hospitality division assets of Red the Uniform Tailor ("RTUT") of Lakewood, New Jersey (since re-located to Farmingdale, New Jersey). Utility is a designer, manufacturer and distributor of uniforms and career apparel to customers in Quebec and to national accounts across Canada. RTUT is a designer, manufacturer and distributor of uniforms and related apparel to hospitality industry customers in the United States.

RESULTS OF OPERATIONS

The following table sets out selected consolidated financial information for the previous three fiscal years.

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Fiscal years ended	September 30, 2018	September 30, 2017	September 30, 2016
Consolidated statement of comprehensive loss data:			
Revenue	76,835,677	65,572,476	52,715,728
Direct expenses	58,214,844	53,947,042	44,195,387
General and administrative expenses	8,721,352	8,100,386	7,896,847
Depreciation	949,595	867,626	800,569
Interest expense	993,682	952,688	917,166
Share-based payment	341,275	272,104	198,514
Net income (loss) before income taxes	7,614,929	1,432,630	(1,292,755)
Income tax expense (recovery)	377,335	358,897	(331,493)
Net income (loss) and total comprehensive income (loss)	7,237,594	1,073,733	(961,262)
Attributable to Unisync Corp. shareholders	7,073,490	689,022	(1,121,538)
Attributable to minority partner	164,104	384,711	160,276
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	0.53	0.05	(0.09)
Diluted	0.52	0.05	(0.09)
Supplemental data:			
Gross profit (1)	17,671,238	10,757,808	7,719,772
Gross profit as a % of revenue	23.0%	16.4%	14.6%
Adjusted EBITDA (2)	10,058,349	3,525,048	623,494
Adjusted EBITDA as a % of revenue	13.1%	5.4%	1.2%
Consolidated statement of financial position data:			
Working capital, excluding shareholder advances, amount due to minority partner and term loan	21,927,560	7,743,241	6,893,772
Total assets	50,432,602	59,376,808	40,855,135
Other liabilities:			
Term loan	1,567,294	2,682,500	3,872,500
Shareholder advances	-	2,928,001	2,422,573
Deferred tax liabilities	695,148	723,910	758,721
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	29,128,167	11,464,787	10,413,661
Shareholder's equity - attributable to minority partner	(41,427)	(10,695)	(16,617)
(1) Gross profit is calculated by the Company as revenue less direct expenses and depreciation and amortization.			
(2) Adjusted EBITDA is calculated by the Company as earnings before interest expense, income taxes, depreciation and amortization, share-based payment, impairment losses and acquisition costs.			
Gross profit and adjusted 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 adjusted 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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**MANAGEMENT DISCUSSION AND ANALYSIS OF
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Summary of Quarterly Results

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

	09/30/2017	12/31/2017	03/31/2018	06/30/2018	09/30/2018	12/31/2018	03/31/2019	06/30/2019
Revenue	20,110	13,629	36,373	15,017	11,817	16,946	19,073	21,587
Direct expenses	16,433	10,922	24,603	11,870	10,820	13,885	16,054	18,176
Depreciation	260	231	228	236	254	443	505	494
General & administrative	1,966	2,123	2,313	2,062	2,223	3,445	3,873	4,569
Interest expense	341	261	297	277	159	328	370	324
Share based payment	51	112	86	79	64	56	48	133
Net income (loss) before income taxes	1,059	(20)	8,846	492	(1,703)	(1,211)	(1,777)	(2,109)
Income tax expense (recovery)	273	14	2,329	(1,526)	(440)	(300)	(453)	(541)
Net income (loss) and comprehensive income (loss)	786	(34)	6,517	2,018	(1,263)	(911)	(1,324)	(1,568)
Net income (loss) attributable to Unisync shareholders	703	(79)	6,449	1,991	(1,287)	(892)	(1,338)	(1,629)
Income attributable to minority partner	83	45	68	27	24	(19)	14	61
Basic income (loss) per share	0.05	(0.01)	0.48	0.15	(0.09)	(0.05)	(0.08)	(0.09)
Diluted income (loss) per share	0.05	(0.01)	0.48	0.15	(0.10)	(0.05)	(0.08)	(0.09)
Supplemental data:								
Gross profit (1)	3,417	2,476	11,542	2,910	743	2,618	2,514	2,917
Gross profit %	17.0%	18.2%	31.7%	19.3%	6.3%	15.4%	13.2%	13.5%
Adjusted EBITDA (2)	1,711	584	9,457	1,085	(968)	323	(405)	(927)
Adjusted EBITDA %	8.5%	4.3%	26.0%	7.2%	(8.2%)	1.9%	(2.1%)	(4.3%)

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

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

Gross profit and adjusted 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 adjusted 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, 2019 versus the quarter ended June 30, 2018

Consolidated revenue for the three months ended June 30, 2019 of \$21.6 million increased by \$6.6 million or 44% from the \$15.0 million recorded in the three months ended June 30, 2018. Revenue was up by \$4.2 million to \$17.7 million in the UGL segment and by \$2.4 million to \$3.9 million in the Peerless segment. The revenue increase in the UGL segment was due to the contribution of \$5.8 million from Utility and \$1.3 million from the former RTUT operations that were both acquired in the current year. Revenue from the UGL segment's existing operations was down \$2.9 million from the same period in the prior year when a new uniform rollout was launched for Canada's biggest drugstore chain and when the UGL segment disposed of the remaining discontinued uniforms of its largest airline customer following that customer's new uniform rollout in the second quarter of fiscal 2018. The UGL segment's next significant new uniform rollout, for its second largest airline account, is expected to take place from September 2019 to March 2020.

The \$2.4 million revenue increase in the Peerless segment in the current quarter compares to a poor third quarter last year when results were negatively effected by 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. The improvement in Peerless segment revenue experience in the quarter ended June 30, 2019 is expected to continue into the coming year as the DND has recently exercised \$8.5 million in contract options bringing the firm portion of the \$34 million in contracts outstanding to \$20.5 million.

Consolidated gross profit for the three months ended June 30, 2019 was unchanged at \$2.9 million from the previous year's quarter but as a percentage of revenue fell to 13.5% from 19.3%. Gross profit was impacted by a fair value adjustment of \$0.2 million to direct expenses for inventory acquired in the Utility purchase and by a \$0.1 million increase in amortization expense for the fair value of Utility's customer relationships. Excluding these adjustments, consolidated gross profit would have been \$3.2 million or 14.8% of revenue. The Peerless segment reported a \$0.6 million increase in gross profit to \$0.9 million while its gross profit margin slipped from 25.4% of revenue to 24.7% of revenue due to a change in the mix of sales. Gross profit in the UGL segment fell by \$0.2 million to \$2.3 million and its gross profit margin fell from 18.8% (Q3 2018) of revenue to 13.0% (Q3 2019) due to increased fixed distribution and production labour and property costs relative to the start-up of the Henderson, Nevada, facility in support of the upcoming launch of new uniforms for the Company's first US based airline account and lower economies of scale at the existing Canadian operations.

General and administrative expenses increased by \$2.5 million or 128% in the three months ended June 30, 2019 from the third quarter one year ago with the inclusion of \$0.7 million of Utility and \$0.5 million of new US location expenses and with increases of \$0.6 million, \$0.5 million and \$0.2 million across the existing UGL, Corporate and Peerless segments respectively. General and administrative expenses rose in the UGL segment due to additional sales and customer service staffing, redundant online ordering support and programming costs with the transition to a new vendor and litigation expenses with former employees. The increase in Corporate expenses was mainly attributable to fees related to defending a legal challenge to the hiring of a former executive of a competitor and increased officer and director compensation. The Peerless segment recorded an increase in management compensation costs from the same period in fiscal 2018.

Interest expense of \$0.3 million for the current quarter was unchanged from the third quarter of fiscal 2018.

The Company realized a net loss and total comprehensive loss of \$1.6 million in the quarter ended June 30, 2019 compared to net income and total comprehensive income of \$2.0 million in the same quarter last year for the reasons cited above and as a result the recording in the prior period of an income tax recovery of \$1.7 million on the recognition of \$4.7 million of income tax losses not previously recognized. Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment, and acquisition costs) was negative \$0.9 million for the three months ended June 30, 2019 against positive \$1.1 million for the three month period ended June 30, 2018.

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Business Trends

The UGL segment is seeing rationalization of its competition and opportunities to expand its market share both in Canada and the United States. Following upon the October 1, 2018 Utility acquisition, the Company leased a new 45,000 square foot distribution centre facility in Henderson, Nevada and acquired the hospitality assets of RTUT in Lakewood, New Jersey (since relocated to Farmingdale, New Jersey). Building upon these initial investments, the Company sees significant opportunities for growth in the US market.

As the result of its success with the new uniform rollout to the 30,000 employees of Air Canada, UGL's largest airline account, in fiscal 2017 and 2018, UGL has been working with WestJet on the test of a new uniform and will assume distribution to its 10,000 uniformed employees of its existing uniform program in the first quarter of fiscal 2020. It is expected that the manufacture of WestJet's new uniform will take place during fiscal 2020 with the rollout of the new uniform to start in early fiscal 2021.

UGL's first U.S. based airline account, Alaska Airlines, is scheduled to officially rollout its new uniforms to its 19,000 uniformed employees starting in late fiscal 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. UGL will be distributing to Alaska Airlines employees from its Henderson Nevada distribution centre. UGL intends to use this location to expand its marketing efforts to other US customers in industry sectors where UGL has built a strong knowledge base, such as in food service, hospitality, private security, retail and transportation.

With \$34 million in firm contracts and options on hand as at June 30, 2019, the Peerless business segment is well positioned to return to more normal levels of revenues and profitability into fiscal 2020 and beyond.

LIQUIDITY

Unisync has established two operating loan facilities totalling \$25.5 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 October 2018, Unisync established two new term loan facilities, a \$5,000,000 First Capital Loan Facility and a \$2,860,000 Second Capital Loan Facility to finance the acquisition of Utility.

Excluding the current portion of the term loan facilities, Unisync had working capital of \$13.5 million and \$21.9 million at June 30, 2019 and September 30, 2018, respectively. As at June 30, 2019, the Company had outstanding foreign exchange contracts of \$nil (September 30, 2018 - nil) and letters of credit of \$0.4 million (September 30, 2018 - nil) along with operating loans of \$14.4 million (September 30, 2018: \$12.0 million) under its two operating loan facilities. As the Company grows its US customer base, its US dollar revenues are expected to increase, creating a natural hedge against its US dollar offshore purchases and thereby reducing the Company's exposure to changes in the Canadian/US dollar exchange rate.

Capital expenditures on tangible and intangible assets for the three months ended June 30, 2019 of \$0.4 million were primarily incurred to incur leasehold improvements and acquire warehouse distribution assets for the new locations in New Jersey and Nevada and to tailor the Company's web based B2B ordering system to service the launch of new accounts. The Company is in the process of implementing a new ERP system. To date the Company has expended \$1.8 million on the project and has recorded that amount in Long-term prepaid expenses at June 30, 2019. On the expectation of the receipt of approximately \$0.3 million of approved government grants to assist with employee ERP training, the Company expects to incur no further net amount to complete the system implementation during the last quarter 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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SHARE CAPITAL

The following table sets out the share capitalization of the Company as at June 30, 2019 and the date of this MD&A.

Description	Authorized	Outstanding as at June 30, 2019	Outstanding as at the date of this MD&A
Common voting shares	Unlimited	17,537,525	17,537,525
Stock Options	1,753,753	1,285,000	1,310,000
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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended June 30, 2019, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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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;
- that the UGL segment will pursue new accounts in the United States marketplace with the expectation of growing its US dollar revenues and thereby minimizing its exposure to exchange fluctuations between the Canadian and US dollar as outlined in the Business Trends and Liquidity sections;

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

Albert El Tasi, the Company's minority partner in the Peerless segment incurred an income allocation of \$61,123 (2017 – \$27,377).

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

SUBSEQUENT EVENTS

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.

INVESTOR RELATIONS

Investor relations inquiries are handled by the Company's Executive Chairman. Citadel Securities Canada ULC provides market-making services and maintains an orderly trading market for the shares of the Company.