

Condensed interim consolidated financial statements of

Unisync Corp.

As at and for the three and nine month period ended June 30, 2020

Unisync Corp.

June 30, 2020

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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, 2020.

Unisync Corp.

Condensed interim consolidated statements of income (loss)

For the three and nine months ended June 30, 2020 and June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Revenue	17,164,639	21,587,052	71,981,094	57,605,993
Direct expenses (Note 15)	14,077,605	18,175,875	55,625,372	48,115,614
General and administrative expenses (Note 15)	3,301,238	4,568,776	12,651,105	11,886,712
Depreciation and amortization	951,522	493,681	2,681,438	1,441,727
	(1,165,726)	(1,651,280)	1,023,179	(3,838,060)
Interest expense	591,492	324,154	1,993,953	1,021,754
Share-based payment (Note 13)	-	133,416	79,232	236,714
Net income (loss) before income taxes	(1,757,218)	(2,108,850)	(1,050,006)	(5,096,528)
Income tax expense (recovery) (Note 14)	(640,552)	(540,804)	(385,564)	(1,294,120)
Net income (loss)	(1,116,666)	(1,568,046)	(664,442)	(3,802,408)
Attributable to				
Unisync Corp. shareholders	(1,186,954)	(1,629,169)	(810,022)	(3,859,416)
Minority partner	70,288	61,123	145,580	57,008
	(1,116,666)	(1,568,046)	(664,442)	(3,802,408)
Net income (loss) per share attributable to Unisync Corp. shareholders				
Basic	(0.06)	(0.09)	(0.04)	(0.22)
Diluted	(0.06)	(0.09)	(0.04)	(0.22)
Weighted average number of shares	18,647,393	17,537,525	18,283,403	17,537,525
Diluted weighted number of shares outstanding	18,754,849	17,834,279	18,473,057	17,794,968

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

Unisync Corp.

Condensed interim consolidated statements of comprehensive income (loss)

For the three and nine months ended June 30, 2020 and June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Net income (loss)	(1,116,666)	(1,568,046)	(664,442)	(3,802,408)
Items that may be reclassified subsequently to income or loss				
Other comprehensive income (loss), net of taxes				
Currency translation adjustment	(226,605)	-	10,752	-
Comprehensive income (loss)	(1,343,271)	(1,568,046)	(653,690)	(3,802,408)
Attributable to				
Unisync Corp. shareholders	(1,413,559)	(1,629,169)	(799,270)	(3,859,416)
Minority partner	70,288	61,123	145,580	57,008
	(1,343,271)	(1,568,046)	(653,690)	(3,802,408)

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, 2020 and September 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2020	September 30, 2019
	\$	\$
Assets		
Current assets		
Cash	307,927	19,973
Trade and other receivables	7,407,265	11,237,034
Inventory (Note 4)	40,963,805	44,088,559
Prepaid expenses and deposits	2,886,697	3,998,876
	51,565,694	59,344,442
Non-current assets		
Cash surrender value of life insurance policy	86,601	85,403
Property, plant and equipment (Note 5)	8,784,364	8,693,231
Right of use assets (Note 6)	9,437,365	-
Deferred tax asset (Note 14)	976,018	672,548
Intangible assets (Note 7)	9,488,415	9,811,371
Goodwill (Note 8)	6,346,464	6,384,797
	86,684,921	84,991,792
Liabilities		
Current liabilities		
Operating loan (Note 9)	21,578,000	24,512,679
Trade payables and accrued liabilities	2,597,527	6,263,600
Provision for income taxes	5,123	96,409
Deferred revenue	8,347,426	14,178,949
Current portion of term loans (Note 9)	1,143,000	1,143,000
Current portion of long-term lease liabilities (Note 10)	1,005,820	-
Shareholder advances (Note 11)	4,284,267	1,836,800
Due to minority partner (Note 12)	1,500,000	-
	40,461,163	48,031,437
Non-current liabilities		
Term loans (Note 9)	4,964,632	5,527,398
Long-term lease liabilities (Note 10)	9,164,784	-
Due to minority partner (Note 12)	-	1,500,000
	54,590,579	55,058,835
Commitments and contingencies (Note 16)		
Equity		
Share capital (Note 13)	29,495,877	26,441,993
Share-based payment reserve	1,767,976	1,688,744
Retained earnings	868,205	1,855,948
Equity attributable to Unisync Corp. shareholders	32,132,058	29,986,685
Deficit attributable to minority partner	(37,716)	(53,728)
	32,094,342	29,932,957
	86,684,921	84,991,792

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, 2020 and June 30, 2019

(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, 2018	2,921,000	10,234,215	13,343,698	11,704,143	1,251,610	5,938,199	18,893,952	(41,427)	29,086,740
Subscription receipts converted to common shares (Note 13 (c))	(2,921,000)	(10,234,215)	2,921,000	10,234,215	-	-	10,234,215	-	-
Common shares issued to Utility shareholders (Note 13 (c))	-	-	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	-	-	17,537,425	26,201,993	1,488,324	2,078,783	29,769,100	(23,769)	29,745,331
Balance, as previously reported									
September 30, 2019	-	-	17,637,525	26,441,993	1,688,744	1,855,948	29,986,685	(53,728)	29,932,957
Transition adjustments IFRS 16 (Note 2)	-	-	-	-	-	(188,472)	(188,472)	-	(188,472)
Restated balance,									
September 30, 2019	-	-	17,637,525	26,441,993	1,688,744	1,667,476	29,798,213	(53,728)	29,744,485
Common shares issued (Note 13 (c))	-	-	924,703	2,835,134	-	-	2,835,134	-	2,835,134
Common shares issued on exercise of stock options (Note 13 (d))	-	-	125,000	218,750	-	-	218,750	-	218,750
Share-based payment	-	-	-	-	79,232	-	79,232	-	79,232
Distribution to minority partner	-	-	-	-	-	-	-	(129,568)	(129,568)
Net income (loss)	-	-	-	-	-	(810,022)	(810,022)	145,580	(664,442)
Other comprehensive income	-	-	-	-	-	10,751	10,751	-	10,751
Balance,									
June 30, 2020	-	-	18,687,228	29,495,877	1,767,976	868,205	32,132,058	(37,716)	32,094,342

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, 2020 and June 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Operating activities				
Net income (loss)	(1,116,666)	(1,568,046)	(664,442)	(3,802,408)
Adjustments for:				
Interest expense	591,492	324,154	1,993,953	1,021,754
Income tax expense (recovery)	(640,552)	(540,804)	(385,564)	(1,294,120)
Income taxes recovered (paid)	55,786	38,632	53,721	(138,423)
Depreciation and amortization	951,522	493,681	2,681,438	1,441,727
Increase in cash surrender value of life insurance	-	-	(1,198)	-
Share-based payment	-	133,416	79,232	236,714
	(158,418)	(1,118,967)	3,757,140	(2,534,756)
Changes in non-cash working capital items				
Trade and other receivables	9,265,655	(563,560)	3,829,769	(3,517,156)
Inventory	2,868,064	(4,657,101)	3,124,754	(5,186,442)
Prepaid expenses	235,397	26,249	1,112,179	(1,705,562)
Trade payables and accrued liabilities	(4,407,865)	(322,226)	(3,666,069)	(1,418,510)
Deferred revenue	(262,418)	1,522,572	(5,831,523)	11,239,908
	7,540,415	(5,113,033)	2,326,250	(3,122,518)
Investing activities				
Acquisition of Utility	-	-	38,333	(11,107,626)
Purchase of property, plant and equipment	(22,490)	(175,140)	(586,685)	(399,867)
Purchase of long-term prepaid expenses	-	(366,675)	-	(784,905)
Purchase of intangible assets	(169,473)	(204,153)	(614,684)	(371,382)
	(191,963)	(745,968)	(1,163,036)	(12,663,780)
Financing activities				
Increase (decrease) in operating loan	(6,034,435)	6,103,428	(2,934,679)	8,159,925
New term loans advances	-	-	-	7,860,000
New term loans repayments	(285,750)	(285,750)	(571,500)	(857,250)
New term loans financing costs	-	-	-	(58,253)
Repayment of term loan	-	-	-	(1,574,794)
Repayment of Utility term loans	-	-	-	(7,015,086)
Repayment of lease liabilities	(267,262)	-	(752,990)	-
Use of restricted cash	-	-	-	10,782,551
Shareholder advances	-	-	2,000,000	-
Note payment	-	-	-	(54,000)
Interest paid	(464,127)	(324,154)	(1,537,748)	(1,014,254)
Distributions to minority partner	(71,343)	(41,044)	(129,568)	(39,350)
Proceeds on exercise of stock options	218,750	-	218,750	-
Proceeds of common share issue	-	-	2,835,133	-
	(6,904,167)	5,452,480	(872,602)	16,189,489
Effect of foreign exchange rates	(291,958)	-	(2,658)	-
Net cash inflows (outflows)	152,327	(406,521)	287,954	403,191
Cash, beginning of period	155,600	1,022,008	19,973	212,296
Cash, end of period	307,927	615,487	307,927	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, 2020

(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. Unisync Corp.'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".

The Company operates in two main business segments. 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 year ended September 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, Richmond, 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, 2019 with the exception of the significant accounting policies adopted as a result of the initial application of IFRS 16 - Leases ("IFRS 16") on October 1, 2019, described within this note. 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, 2019 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, 2020.

Standards, Amendments and Interpretations Issued and Adopted

Adoption of IFRS 16 - Leases

Effective in 2019, the Company adopted IFRS 16, issued in January 2016 and the related consequential amendments. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all operating leases where the Company is a lessee. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings on September 30, 2019. The prior year figures were not adjusted.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2020

(Expressed in Canadian dollars)

(Unaudited)

2. Basis of presentation and significant accounting policies (continued)

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	As previously reported under IAS 17, September 30, 2019	IFRS transition adjustments	Balance at October 1, 2019
	\$	\$	\$
Assets			
Right of use assets	-	8,656,761	8,656,761
Deferred tax asset	672,548	67,039	739,587
Liabilities			
Current portion of long-term lease liabilities	-	906,431	906,431
Long-term lease liabilities	-	8,005,841	8,005,841
Equity			
Retained earnings	1,855,948	(188,472)	1,667,476

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which have previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company's incremental borrowing rate as of October 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated balance sheet on October 1, 2019 was 4.9%.

The following table reconciles the operating lease commitments as at September 30, 2019 to the opening balance of lease liabilities as at October 1, 2019:

	\$
Operating lease commitments as at September 30, 2019	4,963,207
Add: adjustments as a result of different treatment and termination options	5,032,440
Effect of discounting using the Company's incremental borrowing rate	(1,083,375)
Lease liabilities recognized as at October 1, 2019	8,912,272

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application.

The following amendments and interpretations were adopted by the Company as of October 1, 2019:

IAS 12 – Income Taxes

IAS 19 – Employee Benefits (2011)

IAS 23 – Borrowing Costs

IFRIC 23 – Uncertainty over Income Tax Treatments

The implementation of these amendments and interpretations did not have a material impact on the Company's consolidated financial statements.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2020

(Expressed in Canadian dollars)

(Unaudited)

3. 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, 2019. 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 and the United States of America. 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, 2020

(Expressed in Canadian dollars)

(Unaudited)

3. 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.

4. Inventory

	June 30, 2020	September 30, 2019
	\$	\$
Raw materials	4,566,868	4,225,537
Work in process	1,291,090	1,544,106
Finished goods	35,105,847	38,318,916
	40,963,805	44,088,559

Cost of inventories recognized as an expense during the nine months ended June 30, 2020 amounted to \$44,658,558 (June 30, 2019 - \$37,350,984). During the nine months ended June 30, 2020, inventory was written down by \$327,523 (June 30, 2019 - \$307,213) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value at June 30, 2020 was \$425,128 (September 30, 2019 - \$572,255), with the remaining inventory recorded at cost.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2020

(Expressed in Canadian dollars)

(Unaudited)

5. Property, plant and equipment

								June 30, 2020
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2019	422,730	7,164,636	1,932,837	832,926	280,115	115,938	744,519	11,493,701
Effect of foreign exchange rates	-	-	7,925	1,856	1,403	-	7,298	18,482
Additions	-	31,548	54,541	56,303	66,365	-	377,928	586,685
Disposals	-	-	-	-	-	-	-	-
Balance at June 30, 2020	422,730	7,196,184	1,995,303	891,085	347,883	115,938	1,129,745	12,098,868
<i>Accumulated depreciation</i>								
Balance at September 30, 2019	-	682,244	1,028,167	558,425	127,686	76,796	327,152	2,800,470
Depreciation	-	158,196	125,907	70,022	32,952	21,230	105,727	514,034
Disposals	-	-	-	-	-	-	-	-
Balance at June 30, 2020	-	840,440	1,154,074	628,447	160,638	98,026	432,879	3,314,504
<i>Net carrying amount</i>								
At June 30, 2020	422,730	6,355,744	841,229	262,638	187,245	17,912	696,866	8,784,364
								September 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	-	69,636	276,689	139,148	92,113	-	337,132	914,718
Disposals	-	-	-	-	-	-	-	-
Balance at September 30, 2019	422,730	7,164,636	1,932,837	832,926	280,115	115,938	744,519	11,493,701
<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	-	212,320	100,307	76,686	59,772	30,199	48,039	527,323
Disposals	-	-	-	-	-	-	-	-
Balance at September 30, 2019	-	682,244	1,028,167	558,425	127,686	76,796	327,152	2,800,470
<i>Net carrying amount</i>								
At September 30, 2019	422,730	6,482,392	904,670	274,501	152,429	39,142	417,367	8,693,231

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2020

(Expressed in Canadian dollars)

(Unaudited)

6. Right of use assets

	June 30, 2020
	\$
<i>Cost</i>	
Balance at September 30, 2019	-
Transition adjustments - IFRS 16 (note 2)	8,656,781
Balance at October 1, 2019	8,656,781
Right of use leases added	1,915,956
Effect of foreign exchange rates	93,187
Balance at June 30, 2020	10,665,924
<i>Accumulated depreciation</i>	
Balance at October 1, 2019	-
Depreciation	(1,228,559)
Balance at June 30, 2020	(1,228,559)
<i>Net carrying amount</i>	
At June 30, 2020	9,437,365

Unisync Corp.

Notes to the condensed interim consolidated financial statements

June 30, 2020

(Expressed in Canadian dollars)

(Unaudited)

7. Intangible assets

					June 30, 2020
					\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition	Standards certification	Total
<i>Cost</i>					
Balance at September 30, 2019	4,925,358	251,440	7,195,285	63,137	12,435,220
Effect of foreign exchange rate:	1,205	-	-	-	1,205
Additions	614,684	-	-	-	614,684
Balance at June 30, 2020	5,541,247	251,440	7,195,285	63,137	13,051,109
<i>Accumulated amortization</i>					
Balance at September 30, 2019	1,593,814	157,654	839,784	32,597	2,623,849
Amortization	272,656	26,880	629,838	9,471	938,845
Balance at June 30, 2020	1,866,470	184,534	1,469,622	42,068	3,562,694
<i>Net carrying amount</i>					
At June 30, 2020	3,674,777	66,906	5,725,663	21,069	9,488,415
					September 30, 2019
					\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition	Standards certification	Total
<i>Cost</i>					
Balance at September 30, 2018	2,309,374	251,440	-	63,137	2,623,951
Transferred from long-term prepaid expense	980,618	-	-	-	980,618
Additions	1,635,366	-	7,195,285	-	8,830,651
Balance at September 30, 2019	4,925,358	251,440	7,195,285	63,137	12,435,220
<i>Accumulated amortization</i>					
Balance at September 30, 2018	1,286,790	121,734	-	19,969	1,428,493
Amortization	307,024	35,920	839,784	12,628	1,195,356
Balance at September 30, 2019	1,593,814	157,654	839,784	32,597	2,623,849
<i>Net carrying amount</i>					
At September 30, 2019	3,331,544	93,786	6,355,501	30,540	9,811,371

Unisync Corp.

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June 30, 2020

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(Unaudited)

8. Goodwill

	June 30, 2020
	\$
<i>Cost</i>	
Balance at September 30, 2019	6,384,797
Adjustment on acquisition of Utility	(38,333)
Balance at June 30, 2020	6,346,464

	September 30, 2019
	\$
<i>Cost</i>	
Balance at September 30, 2018	3,233,942
Goodwill on acquisition of Utility	3,150,855
Balance at September 30, 2019	6,384,797

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. 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

	June 30, 2020	September 30, 2019
	\$	\$
Operating loan (a)	21,578,000	24,512,679
Current portion of term loans (b)	1,143,000	1,143,000
Term loans (b)	4,964,632	5,527,398
	27,685,632	31,183,077

Changes to the Company's debt obligations for the nine month period ended June 30, 2020 are as follows:

	June 30, 2020
	\$
Balance at September 30, 2019	31,183,077
Amortization of deferred finance costs	8,734
Decrease in operating loan	(2,934,679)
Repayments of new term loans	(571,500)
Balance at June 30, 2020	27,685,632

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9. Loan facilities (continued)

- (a) The Company has established two operating loan facilities totalling \$25,500,000 with a Canadian chartered bank and an operating loan facility of US\$5,000,000 with the United States affiliate of the 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, 2020, combined drawings under the operating loan facilities were \$21,578,000 (September 30, 2019 - \$24,512,679). The borrowings under the operating loan facilities are available by way of prime rate advances, banker's acceptances or LIBOR advances. 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 \$17,500,000 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, 2020, 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 with a Canadian chartered bank 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 notional five year amortization period but shall be paid in full by January 1, 2022 unless extended and the Second Capital term loan is repayable by way of quarterly principal payments of \$35,750 over a notional twenty year amortization period but shall be paid in full by January 1, 2022 unless extended. 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, 2020, the Company was in compliance with the covenants of its term loan facilities.

10. Long-term lease liabilities

	June 30, 2020
	\$
Balance at September 30, 2019	-
Transition adjustments - IFRS 16 (note 2)	8,912,272
Balance at October 1, 2019	8,912,272
Leases added	1,916,513
Effect of foreign exchange rates	94,809
Repayment of lease liabilities	(752,990)
Balance at June 30, 2020	10,170,604

Interest expense on long term lease liabilities for the nine month period ended June 30, 2020 was \$392,733. The prior period figure is not comparable due to the adoption of IFRS 16 in the current period (refer to Note 2).

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11. Shareholder advances

	June 30, 2020	September 30, 2019
	\$	\$
Postponed shareholder advances	3,750,000	1,750,000
Accrued interest and processing fees	534,267	86,800
	4,284,267	1,836,800

The Company received bank postponed shareholder advances of \$1,750,000 in July 2019 and \$2,000,000 in November 2019. The advances bear interest at 12% per annum and were subject to processing fees of 2.5%. Repayment of the principal amounts of the advances and the accrued interest and processing fees is due on July 15, 2020.

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. 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. On April 9, 2020, the Company received notice from the minority partner of Peerless that the minority partner was exercising its put option to receive payment of \$1,500,000 from the Company for the minority partner's interest in Peerless by no later than April 10, 2021.

13. Capital stock

(a) Authorized

Unlimited number of the following classes of shares:

- Common shares without par value.
- Class A preferred shares issuable in series with no voting rights.

(b) Shares issued and fully paid

	Number of shares	
	Common shares	Amount \$
Balance, September 30, 2018	13,343,698	11,704,143
Shares issued from subscription receipts, net of costs (Note 13 (c))	2,921,100	10,234,215
Shares issued to Utility shareholders (Note 13 (c))	1,272,727	4,263,635
Shares issued on exercise of stock options (Note 13 (d))	100,000	240,000
Balance, September 30, 2019	17,637,525	26,441,993
Shares issued, net of costs (Note 13 (c))	924,703	2,835,134
Shares issued on exercise of stock options (Note 13 (d))	125,000	218,750
Balance, June 30, 2020	18,687,228	29,495,877

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13. 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 and the Company issued 1,272,727 common shares at a fair value of \$3.35 per share to the shareholders of Utility

On December 30, 2019, the Company completed a private placement of 924,703 Common shares at a price of \$3.30 per share for total gross proceeds of \$3,051,520 received, less costs of issuance of \$216,386.

(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 April 9, 2019, April 23, 2019 and July 9, 2019, 25,000, 200,000 and 25,000 options at exercise prices of \$3.40, \$3.57 and \$3.42 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, 2020, 125,000 options were exercised (June 30, 2019 – nil) and nil options were forfeited (June 30, 2019 – 160,000).

The following table summarizes stock options outstanding:

	nine months ended		nine months ended	
	June 30, 2020		June 30, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	1,170,000	2.41	1,225,000	2.26
Granted during the period	-	-	225,000	3.55
Exercised during the period	(125,000)	1.75	-	-
Forfeited during the period	-	-	(160,000)	2.95
Outstanding, end of period	1,045,000	2.48	1,290,000	2.40

Based on the above vesting schedule, a stock option compensation expense of \$79,232 was recognized for the nine month period ended June 30, 2020 (June 30, 2019 - \$252,773) 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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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:

	three months ended June 30, 2020	three months ended June 30, 2019	nine months ended June 30, 2020	nine months ended June 30, 2019
			\$	\$
Income tax (recovery) expense	(144,979)	(101,349)	(144,979)	(25,719)
Deferred tax (recovery) expense	(495,573)	(439,455)	(240,585)	(1,268,900)
Income tax (recovery) expense	(640,552)	(540,804)	(385,564)	(1,294,619)

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:

	three months ended June 30, 2020	three months ended June 30, 2019	nine months ended June 30, 2020	nine months ended June 30, 2019
			\$	\$
Net income (loss) before income taxes	(1,757,218)	(2,108,850)	(1,050,006)	(5,096,528)
Tax rate	27.0%	26.7%	27.0%	26.5%
	(474,449)	(563,857)	(283,502)	(1,351,185)
Taxes attributable to minority partner	(18,421)	(16,126)	(38,225)	(15,089)
True-ups	(148,481)	-	(92,865)	-
Permanent differences	799	39,179	29,028	72,154
Income tax expense	(640,552)	(540,804)	(385,564)	(1,294,120)

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

	June 30, 2020	September 30, 2019
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	2,940,230	2,727,333
Deferred tax liabilities		
Property, plant and equipment	(1,964,212)	(2,054,785)
	976,018	672,548

The Company has non-capital losses of approximately \$10,370,000 (September 30, 2019 - \$8,735,000) that can be applied against future years' taxable income for Canadian income tax purposes. These losses were recognized as a deferred tax asset in the amount of \$2,799,900 (September 30, 2019 - \$2,358,450) that is included in the deferred tax asset balance at June 30, 2020. The Company has recognized these losses as a deferred income tax asset as it expects to utilize these losses against income from the sale of uniform products for which the Company held contracts at June 30, 2020.

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15. Expenses by nature

	three months ended June 30, 2020	three months ended June 30, 2019	nine months ended June 30, 2020	nine months ended June 30, 2019
	\$	\$	\$	\$
Direct expenses:				
Materials	10,312,275	12,953,908	39,613,617	34,197,504
Wages and benefits	1,363,439	2,596,544	6,956,022	7,315,259
Subcontract fees	1,239,813	947,064	4,198,507	2,173,740
Delivery	596,513	812,836	3,270,242	2,360,423
Rent, utilities and other property costs	346,323	655,153	1,184,898	1,666,877
Insurance	124,752	74,200	160,752	188,058
Other	94,490	136,170	241,334	213,753
	14,077,605	18,175,875	55,625,372	48,115,614
General and administrative expenses:				
Wages and benefits	1,652,337	2,499,690	6,952,401	6,941,271
Data services, system maintenance, telecommunications and software licenses	554,637	506,168	1,925,236	1,203,689
Legal, bank, insurance and professional service	611,991	562,694	1,500,104	1,380,083
Advertising, marketing and other promotion cos	104,321	303,316	487,832	694,820
Rent, utilities and other property costs	108,220	109,482	351,311	421,825
Other	269,732	587,426	1,434,221	1,245,024
	3,301,238	4,568,776	12,651,105	11,886,712

16. Commitments and contingencies

- (a) At June 30, 2020, the Company had \$900,000 (September 30, 2019 - \$400,000) in letters of credit outstanding.
- (b) 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. No provision for these claims was recorded as of June 30, 2020 (September 30, 2019 - \$nil)

17. Economic dependence

During the nine month period ended June 30, 2020, revenue from the Canadian military and other Canadian governmental agencies accounted for 20% of total revenue (June 30, 2019 - 14%), revenue from a Canadian airline industry customer accounted for 13% of total revenue (June 30, 2019 - 21%) and revenue from an US airline industry customer accounted for 20% of total revenue (June 30, 2019 - nil).

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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.

	three months ended			
	June 30,			
	2020			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	5,002,662	12,205,362	(43,385)	17,164,639
Direct expenses	3,909,012	10,211,978	(43,385)	14,077,605
General and administrative expenses	317,907	2,684,766	298,565	3,301,238
Depreciation and amortization	15,998	823,428	112,096	951,522
	759,745	(1,514,810)	(410,661)	(1,165,726)
Interest expense	56,870	410,158	124,464	591,492
Share based payment	-	-	-	-
Net income (loss) before income taxes	702,875	(1,924,968)	(535,125)	(1,757,218)
Capital expenditures on property, plant and equipn	750	21,740	-	22,490
Capital expenditures on intangible assets	-	169,473	-	169,473

Unisync Corp.

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June 30, 2020

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18. Segmented information (continued)

			nine months ended	
			June 30,	
			2020	
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	14,496,956	57,546,782	(62,644)	71,981,094
Direct expenses	11,798,710	43,889,306	(62,644)	55,625,372
General and administrative expenses	1,014,324	10,643,686	993,095	12,651,105
Depreciation and amortization	47,993	2,297,158	336,287	2,681,438
	1,635,929	716,632	(1,329,382)	1,023,179
Interest expense	180,130	1,364,866	448,957	1,993,953
Share based payment	-	-	79,232	79,232
Net income (loss) before income taxes	1,455,799	(648,234)	(1,857,571)	(1,050,006)
Capital expenditures on property, plant and equipn	91,278	495,408	-	586,686
Capital expenditures on intangible assets	-	614,686	-	614,686
Total assets	7,210,863	65,629,434	13,844,624	86,684,921
Property, plant and equipment	974,322	4,329,885	3,480,157	8,784,364
Right of use assets	-	9,437,365	-	9,437,365
Intangible assets	-	6,167,844	3,320,571	9,488,415
Goodwill	-	1,221,695	5,124,769	6,346,464
Liabilities, excluding due to minority partner	2,430,461	46,702,279	3,957,839	53,090,579

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18. Segmented information (continued)

				three months ended June 30, 2019
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	3,865,424	17,722,673	(1,045)	21,587,052
Direct expenses	2,893,482	15,052,918	229,475	18,175,875
General and administrative expenses	319,211	3,639,496	610,069	4,568,776
Depreciation and amortization	15,998	361,687	115,996	493,681
	636,733	(1,331,428)	(956,585)	(1,651,280)
Interest expense	25,504	298,656	(6)	324,154
Share based payment	-	-	133,416	133,416
Net income (loss) before income taxes	611,229	(1,630,084)	(1,089,995)	(2,108,850)
Capital expenditures on property, plant and equipn	-	175,140	-	175,140
Capital expenditures on intangible assets	-	204,153	-	204,153
				nine months ended 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 equipn	63,065	336,802	-	399,867
Capital expenditures on intangible assets	-	371,382	-	371,382
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

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19. Subsequent event

Subsequent to June 30, 2020, the maturity date for the repayment of the principal amounts of the bank postponed shareholder advances and the accrued interest and processing fees described in note 11 was extended from July 15, 2020 to October 15, 2020 for an accrued extension fee of 2% of the principal amount of the advances prorated to the date of repayment. If the principal amounts of the postponed shareholder advances are not repaid on October 15, 2020, the interest rate on the advances shall increase from 12% per annum to 15% per annum. All other terms and conditions of the original advances remain unchanged.