

UNISYNC CORP.

**Management Discussion and Analysis
For the three month period ended June 30, 2021**

Prepared as at August 11, 2021

UNISYNC CORP.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the three months ended June 30, 2021

BACKGROUND

The following discussion and analysis, prepared as of August 11, 2021, should be read together with the audited consolidated financial statements and the accompanying notes for the years ended September 30, 2020 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three month period ended June 30, 2021 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 under the symbol "UNI" and on the OTCQX Best Market under the symbol "USYNF". 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 iconic brands such as Air Canada, Alaska Airlines, Purolator, Shoppers Drug Mart, Sobeys, Tim Hortons and WestJet.

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. In early 2019 UGL opened a new 45,000 square foot distribution and service facility in Henderson, Nevada, as a base to distribute uniforms to the employees of Alaska Airlines and to develop new business in the United States corporate apparel market.

Unisync recently launched its new eCommerce venture, Tactical Gear Experts ("TGE"), targeting the Outdoor, Tactical and Lifestyle product markets across Canada and the USA. This B2C and B2B eCommerce platform represents a growth opportunity for Unisync that will provide consumers with a broad selection of the very best Tactical and Outdoor equipment shipped across Canada and the USA drawing on our decades of experience as a major Canadian military and public safety supplier.

Unisync is now a vertically integrated North American enterprise with exceptional capabilities in garment design, domestic manufacturing and offshore outsourcing, combined with state-of-the-art web based B2B and B2C ordering, distribution and program management systems.

Business Strategy

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

In addition, the Company will continue to pursue complimentary revenue producing business acquisition opportunities as they arise.

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RESULTS OF OPERATIONS

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

Fiscal years ended	September 30, 2020	September 30, 2019	September 30, 2018
Consolidated statement of net income (loss) data:			
Revenue	93,103,296	77,992,964	76,835,677
Direct expenses	72,247,767	63,817,276	58,214,844
General and administrative expenses	16,372,961	15,813,328	8,721,352
Depreciation and amortization	3,256,373	1,722,679	949,595
Interest expense	2,570,970	1,510,950	993,682
Share-based payment	79,232	437,134	341,275
Net income (loss) before income taxes	(1,424,007)	(5,308,403)	7,614,929
Income tax expense (recovery)	(419,200)	(1,303,515)	377,335
Net income (loss)	(1,004,807)	(4,004,888)	7,237,594
Attributable to Unisync Corp. shareholders	(1,264,116)	(4,080,141)	7,073,490
Attributable to minority partner	259,309	75,253	164,104
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	(0.07)	(0.23)	0.53
Diluted	(0.07)	(0.23)	0.52
Supplemental data:			
Gross profit (1)	17,599,156	12,453,009	17,671,238
Gross profit as a % of revenue	18.9%	16.0%	23.0%
Adjusted EBITDA (2)	4,482,568	(251,343)	9,899,481
Adjusted EBITDA as a % of revenue	4.8%	-0.3%	12.9%
Consolidated statement of financial position data:			
Working capital, excluding restricted cash, shareholder advances, minority interest and current portion of long-term liabilities	17,955,382	14,292,805	11,145,009
Total assets	87,161,314	84,991,792	50,432,602
Other liabilities:			
Term loans	5,824,798	6,670,398	1,567,294
Long-term lease liabilities	8,867,429	-	-
Shareholder advances	4,488,981	1,836,800	-
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	31,202,022	29,986,685	29,128,167
Shareholder's equity - attributable to minority partner	(30,137)	(53,728)	(41,427)
(1) Gross profit is calculated by the Company as revenue less direct expenses, less depreciation and amortization.			
(2) Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment impairment losses and acquisition costs) is a non-GAAP financial measure. 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 measure of EBITDA because we believe that it is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.			

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Summary of Quarterly Results

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

	09/30/2019	12/31/2019	03/31/2020	06/30/2020	09/30/2020	12/31/2020	03/31/2021	06/30/2021
Revenue	20,387	27,076	27,740	17,165	21,122	25,068	21,145	20,655
Direct expenses	15,702	20,714	20,834	14,078	16,622	17,958	16,606	16,099
Depreciation & amortization	281	826	904	952	575	944	1,018	1,114
General & administrative	3,926	4,602	4,748	3,301	3,722	4,396	3,980	4,271
Interest expense	489	667	735	591	577	557	483	484
Share based payment	200	79	-	-	-	153	110	88
Net income (loss) before income taxes	(211)	188	519	(1,757)	(374)	1,060	(1,052)	(1,401)
Income tax expense (recovery)	(9)	99	156	(640)	(34)	299	(269)	(361)
Net income (loss)	(202)	89	363	(1,117)	(340)	761	(783)	(1,040)
Net income (loss) attributable to Unisync shareholders	(221)	67	309	(1,187)	(454)	675	(854)	(1,101)
Income (loss) attributable to minority partner	19	22	54	70	114	86	71	61
Basic income (loss) per share	(0.01)	0.00	0.02	(0.06)	(0.03)	0.04	(0.05)	(0.06)
Diluted income (loss) per share	(0.01)	0.00	0.02	(0.06)	(0.03)	0.04	(0.05)	(0.06)
Supplemental data:								
Gross profit (1)	4,404	5,536	6,002	2,136	3,925	6,166	3,521	3,442
Gross profit %	21.6%	20.4%	21.6%	12.4%	18.6%	24.5%	16.7%	16.7%
Adjusted EBITDA (2)	755	1,714	2,534	(441)	778	2,714	559	285
Adjusted EBITDA %	3.7%	6.3%	9.1%	(2.6%)	3.7%	10.8%	2.6%	1.4%

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

(2) Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment, impairment losses and acquisition costs) is a non-GAAP financial measure. 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 measure of EBITDA because we believe that it is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.

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Results for the quarter ended June 30, 2021 versus the quarter ended June 30, 2020

Revenue for the three months ended June 30, 2021 of \$20.7 million increased by \$3.5 million or 20% from the three months ended June 30, 2020 as a \$4.1 million revenue increase in the UGL segment was partially offset by a \$0.6 million revenue decline in the Peerless segment. Third quarter 2021 UGL segment revenue of \$16.3 million increased by 34% over the same period in the prior year due to improved business conditions for existing accounts that were impacted by COVID-19 pandemic restrictions in the same quarter last year and with the addition of new managed services accounts such as BC Ferries, Canadian Coast Guard and LCBO as well as sales from the new Tactical Gear Experts B2C eCommerce platform. Peerless segment revenue of \$4.3 million was down 12% from the third quarter of the prior fiscal year that included \$0.3 million of personal protective equipment sales in the form of masks and gowns that did not occur in the current quarter.

Gross profit for the three months ended June 30, 2021 of \$3.4 million was up \$1.3 million from the third quarter of 2020 and the gross profit margin improved to 16.7% of revenue from 12.4% during the three months ended June 30, 2020. The UGL segment recorded gross profit of \$2.6 million or 15.7% of segment revenue on the higher volume of sales in the present period compared to \$1.2 million or 9.6% of segment revenue in the same quarter of the prior fiscal year when the economy was in the depths of the first wave of the COVID-19 pandemic. The Peerless segment recorded gross profit in the second quarter of fiscal 2021 of \$1.0 million or 22.7% of segment revenue, little changed from \$1.1 million or 21.4% of segment revenue in the same quarter of the prior fiscal year.

At \$4.3 million, total general and administrative expenses for the three months ended June 30, 2021 were up \$0.9 million or 29% from the three months ended June 30, 2020 as a result of I.T. staffing additions and changes, the reinstatement of executive pay to pre-pandemic levels and reduced government subsidy claims with the higher level of revenue recorded in the current quarter.

The Company's net loss before tax of \$1.4 million in the quarter ended June 30, 2021 improved by \$0.4 million from a loss \$1.8 million in the same quarter last year for the reasons cited above. Adjusted EBITDA was \$0.3 million for the three months ended June 30, 2021 versus a loss of \$0.4 million for the three-month period ended June 30, 2020.

Business Outlook

With worldwide COVID-19 vaccination rates increasing in 2021, the Company expects that the improvement in the business conditions of its general customer base experienced during the most recent quarter will continue as restrictions are lifted, confidence returns and business begins to return to normal. In particular, the Company's North American airline accounts are experiencing increased demand and are starting to reopen routes and increase capacity. The Company expects that this will cause a strong increase in uniform sales to its airline accounts as well as other accounts in the transportation and hospitality sectors and when complimented by recent new account additions, will result in an improving revenue and profitability picture as the year progresses. The Company also expects to continue to take advantage of opportunities in the PPE space with bids ongoing for large volume contracts at all levels of government as they seek to be better prepared for future outbreaks.

With \$17 million in firm contracts and options on hand as of June 30, 2021, the Peerless business segment is positioned to maintain its current level of revenues for the balance of fiscal 2021 and into fiscal 2022.

An RFP document was released by the Canadian Federal Government in 2019 soliciting bidders for a 20-year \$1 billion contract. The OCFC2 contract involves the DND's plans to outsource the procurement, warehousing and distribution of operational clothing, footwear, and personal equipment under one contract. The contract is expected to include provisions for the development of a direct delivery system between the contractor and the individual military member for select items and include a services component for the improvement and development of related items. UGL's Canadian distribution capabilities combined with Peerless' domestic manufacturing experience with the DND provide strong candidacy for the Company's bid. Responses to the OCFC2 RFP bid are now due in August 2021.

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LIQUIDITY

At June 30, 2021, Unisync had 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. The maximum amount available under the facilities is based on margin requirements and covenants.

On October 1, 2018, the Company established two new term loan facilities, a \$5 million First Capital Loan Facility and a \$2.86 million Second Capital Loan Facility with a Canadian chartered bank and repaid its existing term loan. The First Capital term loan is repayable by way of quarterly principal payments of \$0.25 million over a notional five year period and the Second Capital term loan is repayable by way of quarterly principal payments of \$0.036 million over a notional twenty year amortization period. Both Capital Loans are due in full by January 1, 2022 unless extended.

The Company received bank postponed shareholder advances of \$1.75 million in July 2019 and \$2.0 million in November 2019. During the quarter ended June 30, 2021, the Company accrued interest and processing fees of \$0.2 million on these advances and extended the maturity date for repayment of the advances and accrued interest and processing fees from June 15, 2021 to December 15, 2021.

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. The parties are planning to complete the transfer of the minority interest in fiscal 2022.

Excluding the current portion of the term loan and long-term lease facilities, the shareholder financing and minority interest, Unisync had working capital of \$17.0 million and \$18.0 million on June 30, 2021 and September 30, 2020, respectively. As of June 30, 2021, the Company had outstanding foreign exchange contracts to buy US dollars of \$nil (September 30, 2020 - \$nil) and letters of credit of \$0.9 million (September 30, 2020 - \$0.9 million) along with operating loans outstanding of \$19.6 million (September 30, 2020 - \$23.1 million) under its three 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.

The Company's owned facilities in Montreal and Winnipeg with a combined book value at June 30, 2021 of \$6.3 million have recently been appraised for financing purposes at \$12.9 million. The Company is pursuing the opportunity to remortgage these properties to meet the aforementioned debt obligations.

Capital expenditures on intangible assets for the three months ended June 30, 2021 of \$0.3 million were largely spent on the enhancements to the Company's new Enterprise Resource Planning ("ERP") computer system. The ERP system implementation began in fiscal 2018 and the software was first put in use at the Company's Nevada location in September 2019 and is now being rolled out across the UGL segment's Mississauga and Guelph locations with the balance of the Company's locations to be added in fiscal 2022. To date, the Company has invested \$3.2 million in the ERP system and expects to incur an estimated \$0.5 million of capital expenditures to complete the project over the balance of fiscal 2021 and 2022.

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SHARE CAPITAL

The following table sets out the share capitalization of the Company as of June 30, 2021 and the date of this MD&A.

Description	Authorized	Outstanding as at June 30, 2021	Outstanding as at the date of this MD&A
Common Shares	Unlimited	18,937,228	18,937,228
Stock Options – Common Shares	1,893,723	1,790,000	1,740,000
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 3 to the consolidated financial statements and include but are not limited to the inventory 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

None.

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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:

- that with COVID-19 vaccines being distributed worldwide in 2021, the Company believes that it will see a gradual improvement in the business conditions of its general customer base as more people are vaccinated and business begins to return to normal as outlined in the Business Outlook section.
- that 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 as outlined in the Liquidity section;
- that the Company expects to capitalize on PPE opportunities as the result of the COVID-19 pandemic as outlined in the Business Trends section;
- that the Company's new ERP system will be rolled out across all locations during the balance of fiscal 2021 and 2022 at an estimated capital cost of \$0.5 million as outlined in the Liquidity section.

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

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

RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2021, interest and processing fees of \$101,127 were accrued on \$2,050,000 of postponed shareholder advances that were provided by Bruce Aunger, Darryl Eddy, Douglas Good Michael O'Brian and by a fund of which Christian Turgeon, a former director as of July 26, 2021, is a Managing Director (June 30, 2020 - interest and processing fees of \$79,650 were accrued on \$2,400,000 of postponed shareholder advances).

Darryl Eddy and Joel Mclean, members of the Company's board of directors, are also board members of a company to which the Company accrued interest and processing fees of \$57,346 on \$1,162,500 of postponed shareholder advances (June 30, 2020 - interest and processing fees of \$41,484 on \$1,250,000 of postponed shareholder advances) and paid rent of \$7,317 (June 30, 2020 - \$7,317) for its head office location.

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The Company expensed \$26,411 (June 30, 2020 - \$nil) in share based payment to Bruce Auger, Darryl Eddy, Joel McLean, Michael O'Brian, Scott Shepherd and Christian Turgeon, non-salaried members of the Company's board of directors.

Albert El Tassi, the Company's minority partner in the Peerless segment received an income allocation of \$60,802 (June 30, 2020 – \$70,288).

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

SUBSEQUENT EVENTS

On July 26, 2021, the Company established two long term mortgage facilities in a total amount of \$10 million with the Business Development Bank of Canada ("BDC") on its properties located in Saint-Laurent, Quebec and Winnipeg, Manitoba. The properties mortgaged were appraised for financing purposes at \$12.9 million or \$6.3 million above their combined net book values of \$6.6 million. The Saint-Laurent property mortgage of \$6.1 million is for a term of 25 years whereas the Winnipeg property mortgage of \$3.9 million is for a term of 20 years. Both mortgages bear interest rate at a fixed rate of 4.1% per annum for the first five years of the term of the mortgages.

Also on July 26, 2021, amounts of \$3.6 million and \$2.4 million were drawn on the Saint-Laurent and Winnipeg property mortgage facilities respectively to fully repay the First Capital and Second Capital Loan Facilities and to repay \$0.6 million of postponed shareholder loans.

The undrawn balance of the BDC mortgage facilities, in a combined amount of \$4.0 million, has been earmarked to repay the remaining postponed shareholder advances and facilitate the acquisition of the minority partner's interest in Peerless.

INVESTOR RELATIONS

Investor relations inquiries should be addressed to the Company's Executive Chairman.

Venture Liquidity Providers Inc. provides market-making services and assists in maintaining an orderly trading market for the shares of the Company.