

Consolidated financial statements of

**Unisync Corp.**

September 30, 2022 and 2021

# Unisync Corp.

September 30, 2022 and 2021

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To the Shareholders of Unisync Corp.:

## Opinion

We have audited the consolidated financial statements of Unisync Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2022 and September 30, 2021, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2022 and September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Impairment Analysis of Goodwill*

#### Key Audit Matter Description

We draw attention to Note 2(l) and 10 to the consolidated financial statements. The Company has recorded goodwill of \$6,384,797 as of September 30, 2022. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. In determining the estimated recoverable amounts using a discounted cash flow model, the Company's significant assumptions include future cash flows based on expected revenues from contracts, long-term growth rates, estimated costs of production and the discount rate.

We considered this a key audit matter due to the significant judgment made by management in estimating the recoverable amounts for goodwill and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

#### Audit Response

We responded to this matter by performing procedures in relation to Impairment Analysis of Goodwill. Our audit work in relation to this included, but was not restricted to, the following:

- Tested management's key assumptions, including a 'retrospective review' to compare management's assumptions in prior year expected future cash flows to the actual results to assess the Company's budgeting process.
- Evaluated the reasonableness of key assumptions in the impairment model, including future cash flows based on expected revenues from contracts, long-term growth rates, estimated costs of production and the discount rate.
- Verified the mathematical accuracy of management's impairment model and supporting calculations.

- With the assistance of internal valuation specialists, we evaluated the reasonableness of the Company's impairment model, which included:
  - Evaluating the reasonableness of the discount rates by comparing the Company's weighted average cost of capital against publicly available market data; and
  - Developing a range of independent estimates and comparing those to the discount rate selected by management.
- Assessed the appropriateness of aggregating CGUs for impairment testing and the disclosures relating to the assumptions used in the impairment analysis of goodwill in the notes to the consolidated financial statements.

### **Recognition of Deferred Tax Asset**

#### **Key Audit Matter Description**

We draw attention to Notes 2(f) and 15 to the consolidated financial statements. The Company has recorded a deferred tax asset of \$2,068,609 as of September 30, 2022. 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. Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize tax losses recognized as deferred tax assets. Assumptions about the generation of future taxable profits depend on managements' estimates of future cash flows.

We considered this a key audit matter due to the significant judgment made by management in estimating the recoverability of the deferred tax asset, inherent complexity in estimating income taxes and deferred income tax balances and a high degree of auditor judgment. This resulted in an increased extent of audit effort, including the involvement of internal tax specialists.

#### **Audit Response**

We responded to this matter by performing procedures in relation to Recognition of Deferred Tax Assets. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated future taxable income by:
  - Evaluating the Company's ability to accurately estimate future taxable income by comparing actual results to the Company's historical estimates;
  - Assessing the reasonability of estimates of future taxable income by evaluating key inputs to the estimates such as expected revenues from the contracts, long-term growth rates, expected operating results excluding reversals of existing taxable and deductible temporary differences; and
  - Evaluating whether the estimates of future taxable income were consistent with evidence obtained in other areas of the audit.
- With the assistance of internal income tax specialists, assessed the probability that the deferred income tax assets will be realized by:
  - Assessing the existing temporary differences available for future utilization to evaluate deferred income tax assets available to the Company;
  - Assessing the carry forward period and sufficiency over which the Company expects to utilize the underlying future tax deductions against future taxable income before they expire; and
  - Evaluating whether the taxable income in historical periods was of the appropriate character and available under the tax law.
- Assessed the appropriateness of the disclosures relating to the assumptions used in the recognition of deferred tax assets in the notes to the consolidated financial statements.

#### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Abhishek Kapoor.

Vancouver, British Columbia  
December 29, 2022

*MNP* LLP

Chartered Professional Accountants

# Unisync Corp.

## Consolidated statements of income (loss)

Years ended September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

	2022	2021
	\$	\$
Revenue	96,306,766	86,285,179
Direct expenses (Note 16)	72,767,010	66,678,240
General and administrative expenses (Note 16)	18,620,663	16,471,300
Depreciation and amortization (Notes 7,8,9)	4,024,002	3,810,190
	895,091	(674,551)
Interest expense (Notes 11,12)	1,733,002	2,182,737
Share-based payment (Note 14 (c))	407,961	424,596
Net income (loss) before income taxes	(1,245,872)	(3,281,884)
Income tax expense (recovery) (Note 15)	102,356	(705,316)
<b>Net income (loss)</b>	<b>(1,348,228)</b>	<b>(2,576,568)</b>
<b>Attributable to</b>		
Unisync Corp. shareholders	(1,544,711)	(2,829,887)
Minority partner	196,483	253,319
	<b>(1,348,228)</b>	<b>(2,576,568)</b>
<b>Net income (loss) per share attributable to Unisync Corp. shareholders</b>		
Basic	(0.08)	(0.15)
Diluted	(0.08)	(0.15)
<b>Weighted average number of shares - basic (Note 14 (d))</b>	<b>19,010,516</b>	<b>18,931,886</b>
<b>Weighted number of shares outstanding - diluted (Note 14 (d))</b>	<b>19,021,989</b>	<b>18,931,886</b>

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

# Unisync Corp.

## Consolidated statements of comprehensive income (loss) Years ended September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

	<b>2022</b>	2021
	\$	\$
Net income (loss)	<b>(1,348,228)</b>	(2,576,568)
Items that may be reclassified subsequently to income or loss		
Other comprehensive income (loss), net of taxes		
Currency translation adjustment	<b>82,750</b>	19,367
<b>Comprehensive income (loss)</b>	<b>(1,265,478)</b>	(2,557,201)
<b>Attributable to</b>		
Unisync Corp. shareholders	<b>(1,461,961)</b>	(2,810,520)
Minority partner	<b>196,483</b>	253,319
	<b>(1,265,478)</b>	(2,557,201)

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

# Unisync Corp.

## Consolidated statements of financial position

As at September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

	September 30, 2022	September 30, 2021
	\$	\$
<b>Assets</b>		
Current assets		
Cash	97,261	275,456
Trade and other receivables (Note 21 (b))	13,273,404	11,726,336
Inventory (Note 6)	56,198,799	36,207,600
Prepaid expenses and deposits	2,548,444	4,195,412
	<b>72,117,908</b>	<b>52,404,804</b>
Non-current assets		
Cash surrender value of life insurance policy	86,601	86,601
Property, plant and equipment (Note 7)	8,394,864	8,886,789
Right of use assets (Note 8)	7,992,674	9,404,810
Deferred tax asset (Note 15)	2,068,609	2,176,342
Intangible assets (Note 9)	7,318,312	8,675,620
Goodwill (Note 10)	6,384,797	6,384,797
	<b>104,363,765</b>	<b>88,019,763</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan (Note 11)	25,756,045	19,019,847
Trade payables and accrued liabilities	12,580,607	5,008,596
Deferred revenue	16,686,528	12,373,865
Current portion of mortgage loans (Note 11)	281,613	245,035
Current portion of long-term lease liabilities (Note 12)	1,222,736	1,067,147
Due to minority partner (Note 13)	1,500,000	-
	<b>58,027,529</b>	<b>37,714,490</b>
Non-current liabilities		
Mortgage loans (Note 11)	9,326,615	9,601,968
Long-term lease liabilities (Note 12)	8,712,251	9,911,946
Due to minority partner (Note 13)	-	1,500,000
	<b>76,066,395</b>	<b>58,728,404</b>
Commitments and contingencies (Note 17)		
<b>Equity</b>		
Share capital (Note 14)	30,447,488	30,389,749
Share-based payment reserve	2,250,172	1,856,200
Retained earnings (deficit)	(4,334,312)	(2,872,351)
Equity attributable to Unisync Corp. shareholders	<b>28,363,348</b>	<b>29,373,598</b>
Deficit attributable to minority partner	(65,978)	(82,239)
	<b>28,297,370</b>	<b>29,291,359</b>
	<b>104,363,765</b>	<b>88,019,763</b>

Approved by the Board

*(Signed) Douglas F. Good*

, Douglas F. Good, Director

*(Signed) Bruce W. Aunger*

, Bruce W. Aunger, Director

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

# Unisync Corp.

## Consolidated statements of changes in equity

Years ended September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

	Shares	Capital stock Amount	Share- based payment reserve	Retained earnings (deficit)	Equity attributable to Unisync Corp. shareholders	Deficit attributable to minority partner	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance,</b>							
<b>September 30, 2020</b>	<b>18,687,228</b>	<b>29,589,432</b>	<b>1,674,421</b>	<b>(61,831)</b>	<b>31,202,022</b>	<b>(30,137)</b>	<b>31,171,885</b>
Shares issued on exercise of							
stock options (Note 14 (c))	300,000	800,317	(242,817)	-	557,500	-	557,500
Share-based payment	-	-	424,596	-	424,596	-	424,596
Distribution to							
minority partner (Note 19)	-	-	-	-	-	(305,421)	(305,421)
Net income (loss)	-	-	-	(2,829,887)	(2,829,887)	253,319	(2,576,568)
Other comprehensive income (loss)	-	-	-	19,367	19,367	-	19,367
<b>Balance,</b>							
<b>September 30, 2021</b>	<b>18,987,228</b>	<b>30,389,749</b>	<b>1,856,200</b>	<b>(2,872,351)</b>	<b>29,373,598</b>	<b>(82,239)</b>	<b>29,291,359</b>
Shares issued on exercise of							
stock options (Note 14 (c))	25,000	57,739	(13,989)	-	43,750	-	43,750
Share-based payment	-	-	407,961	-	407,961	-	407,961
Distribution to							
minority partner (Note 19)	-	-	-	-	-	(180,222)	(180,222)
Net income (loss)	-	-	-	(1,544,711)	(1,544,711)	196,483	(1,348,228)
Other comprehensive income (loss)	-	-	-	82,750	82,750	-	82,750
<b>Balance,</b>							
<b>September 30, 2022</b>	<b>19,012,228</b>	<b>30,447,488</b>	<b>2,250,172</b>	<b>(4,334,312)</b>	<b>28,363,348</b>	<b>(65,978)</b>	<b>28,297,370</b>

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

# Unisync Corp.

## Consolidated statements of cash flows

Years ended September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

	2022	2021
	\$	\$
<b>Operating activities</b>		
Net income (loss)	(1,348,228)	(2,576,568)
Adjustments for:		
Interest expense (Notes 11,12)	1,733,002	2,182,737
Income tax expense (recovery) (Note 15)	102,356	(705,316)
Income taxes recovered (paid)	(122,278)	(141,498)
Depreciation and amortization (Notes 7,8,9)	4,024,002	3,810,190
Share-based payment (Note 14(c))	407,961	424,596
	4,796,815	2,994,141
Changes in non-cash working capital items		
Trade and other receivables	(1,547,068)	(3,066,270)
Inventory	(19,991,199)	3,277,188
Prepaid expenses and deposits	1,646,968	701,744
Trade payables and accrued liabilities	7,699,666	1,148,872
Deferred revenue	4,312,663	4,112,412
Net cash (used in)/from operating activities	(3,082,155)	9,168,087
<b>Investing activities</b>		
Purchase of property, plant and equipment (Note 7)	(238,667)	(533,217)
Purchase of intangible assets (Note 9)	(443,697)	(969,854)
Net cash used in investing activities	(682,364)	(1,503,071)
<b>Financing activities</b>		
Increase (decrease) in operating loan (Note 11)	6,736,198	(4,167,197)
Mortgage loan advances (Note 11)	-	10,000,000
Mortgage loan repayments (Note 11)	(245,035)	-
Term loan repayments (Note 11)	-	(5,859,750)
Repayment of lease liabilities (Note 12)	(1,697,706)	(1,635,720)
Decrease in shareholder advances	-	(4,488,981)
Mortgage loan financing costs (Note 11)	-	(152,997)
Interest and processing fees paid	(1,133,894)	(1,480,577)
Distributions to minority partner	(180,222)	(305,421)
Proceeds on exercise of stock options (Note 14(c))	43,750	557,500
Net cash from/(used in) financing activities	3,523,091	(7,533,143)
Effect of foreign exchange rates	63,233	(78,010)
Net cash inflows (outflows)	(178,195)	53,863
Cash, beginning of year	275,456	221,593
<b>Cash, end of year</b>	<b>97,261</b>	<b>275,456</b>

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

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 1. Nature of business and basis of presentation

Unisync Corp. (the "Company") 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 under the symbol "UNI" and on the OTCQX under the symbol "USYNF".

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 Unisync Group Limited ("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, Vancouver, British Columbia, Saint-Laurent, Quebec, Farmingdale, New Jersey and Henderson, Nevada.

#### Impact of COVID-19 and other disease related pandemics

Since March 2020, there has been global waves of COVID-19 (coronavirus) mutations and variations, which have had a significant impact on businesses due to employee absences and restrictions put in place by the world governments on travel, and business operations. During this period, the Company experienced reduced demand from customers in the travel and hospitality sectors as well as delays in uniform production and shipping that led to longer lead times and higher costs. Although the COVID-19 pandemic subsided during fiscal 2022 and most businesses have resumed normal operations, at this time, the extent that the impact that future COVID-19 mutations and variations and or other disease related pandemics may have on the Company is uncertain as this will depend on future developments that cannot be predicted with confidence. The Company anticipates that any future pandemics may cause reduced customer demand, supply chain disruptions, and government regulations, all of which may negatively impact the Company's business and financial condition.

These consolidated financial statements including comparatives have been prepared in accordance with accounting policies in full compliance with International Financial Reporting Standards ("IFRS") effective on October 1, 2021.

The consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on December 28, 2022.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

(a) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention.

(b) *Principles of consolidation*

Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company reassesses control on an ongoing basis. Subsidiaries are consolidated from the date on which the Company obtains control until the date that such control ceases.

The financial statements of subsidiaries are prepared with the same reporting period of the Company. All significant inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated in preparing the consolidated financial statements.

Minority partner

The minority partner holds a 10% interest in Peerless. The due to minority partner amount presented as a component of liabilities is as a result of a put/call agreement between the Company and the minority partner as described in Note 13. The deficit attributable to minority partner amount recognized in equity represents the minority partner's share of Peerless' net income and comprehensive income less distributions to the minority partner.

(c) *Foreign currency*

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of all the consolidated entities with the exception of Unisync (Nevada) LLC which has a functional currency of United States dollars ("USD").

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the consolidated statements of income (loss).

Foreign operation

The results and financial position of the Company's foreign operation in the United States are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position.
- (ii) Income and expenses for the consolidated statements of profit (loss) and the consolidated statements of comprehensive income (loss) are translated at average exchange rates.
- (iii) All resulting exchange differences are recognised in other comprehensive income.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (d) Revenue recognition

The Company's contracts with the Federal Government of Canada are in the form of unit price contracts. Unit prices are agreed upon for each identifiable unit of work to be performed. Revenue is recognized based on the quantity of each unit of work performed, when the goods are received by the Government, when control has been transferred to the government, the selling price is fixed or determinable and when collection is reasonably assured.

In contracts or purchase orders where the transfer of title is stipulated, revenue is recognized at that time when control of ownership has been transferred to the buyer, the selling price is fixed or determinable and when collection is reasonably assured. In contracts or purchase orders where the transfer of title is not stipulated, revenue is recognized when the goods are shipped, providing all control of ownership has been transferred to the buyer, the selling price is fixed or determinable and when collection is reasonably assured.

#### (e) Deferred revenue

Deferred revenue relates to payments received on account of services to be rendered in the future or deposits on products to be delivered.

#### (f) Income taxes

Income tax expense comprises current and deferred income tax expense. Income taxes are recognized in the consolidated statements of income (loss) except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible, and adjusted for amendments to tax payable with regards to previous years. Current tax is calculated using tax rates and laws that were substantively enacted at the date of the consolidated statement of financial position.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and deferred tax assets are derecognized to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are recognized for all taxable temporary differences except where the deferred tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (g) Cash

Cash comprises cash on hand, in the bank and demand deposits with an original maturity at the date of purchase of three months or less.

#### (h) Inventory

Inventory consists of raw materials, work in progress and finished goods. These amounts are stated at the lower of cost and net realizable value.

Costs are assigned to inventory quantities on hand at the consolidated statement of financial position date using the first in, first out cost in the Peerless segment and on a weighted average cost basis in the UGL segment. Cost comprises material, labour and an appropriate proportion of fixed and variable overheads. Net realizable value is the estimated selling price in the ordinary course of the business less the estimated cost of completion and the estimated cost necessary to make the sale.

#### (i) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. Costs directly attributable to the acquisition or construction of property, plant and equipment, including labour and interest, are also capitalized as part of the cost.

Repairs and maintenance are charged to the consolidated statement of income (loss) during the financial period in which they are incurred. Upon retirement, disposal or destruction of an asset, the cost and related depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of income (loss).

#### Depreciation

Depreciation is based on estimated useful lives of the assets and is provided for using the following annual rates and methods:

Buildings	5% declining balance
Warehouse and manufacturing equipment	20% declining balance
Computer equipment	20% straight line
Office furnishings and equipment	20% declining balance
Vehicles	30% declining balance
Leasehold improvements	20% straight line

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component.

The assets' residual values, method of depreciation and useful lives are reviewed and adjusted, if appropriate, at least annually.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the consolidated statement of income (loss).

#### Impairment

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment charge is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Impairments to property, plant and equipment are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized that suffer impairment are evaluated for possible reversal of the impairment when events or circumstances warrant such consideration.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (j) Intangible assets

Identifiable intangible assets acquired in a business combination acquisition are recorded at fair value, otherwise they are recorded at cost. The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

Intangible assets with definite useful lives consist of the acquisition cost of customer relationships and computer software. Amortization is provided for on a straight-line basis over 8 – 10 years for customer relationships, over 5 - 7 years for computer software and over 5 years for standards certification, which is the estimated useful life of the assets.

#### (k) Leases

A right-of-use asset and a corresponding lease liability are recognized at the date a leased asset is available for use by the Company. The right-of-use asset is initially measured based on the initial amount of the lease liability. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate is used to calculate present value. The lease term determined by the Company is comprised of the non-cancellable period of the lease contract, as well as options to terminate or extend the lease term if the exercise of either option is reasonably certain.

Right-of-use assets are subsequently measured at cost less depreciation on a straight-line basis and reduced to reflect impairment losses (if any) and adjusted for any remeasurement of the lease liability. After the lease commencement date, lease liabilities are measured at amortized cost using the effective interest method, which increases the liability amount to reflect interest on the lease liability, reduces the liability carrying amount to reflect lease payments made and also reflects any remeasurement or lease modifications. If a remeasurement to the lease liability is deemed necessary, a corresponding adjustment is also made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The Company leases IT equipment for use by staff. The Company has elected to apply the recognition exemption for leases of low-value assets and therefore has not recognized right-of-use assets and lease liabilities for low value leases of IT equipment. Low value leases are leases where the underlying asset has a new value of \$5,000 or less. The Company recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (l) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as determined at the date of acquisition of the business less any impairment losses. For the purposes of impairment testing, the goodwill is allocated to the cash-generating unit ("CGU") that is expected to benefit from the synergies of the business combination.

Goodwill is tested for impairment annually, or more frequently when there is an indicator of impairment. If the recoverable amount of the CGU, which is the greater of the value-in-use and the fair value less costs of disposal, is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit on a pro rata basis based on the carrying value of the assets in the CGU. Any impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of a CGU, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill arose on the acquisitions of Peerless and GP in 2010, the acquisitions of Carleton and Omega in 2015 and the acquisition of Utility in 2018. For impairment testing purposes, the goodwill is allocated to the respective cash-generating unit ("CGU"). The Peerless and GP business is recognized as a CGU for impairment testing since it is a uniform manufacturing business operated under local management with separate information systems. The Carleton, Omega and Utility businesses are uniform distribution businesses that have similar economic and qualitative characteristics and have been integrated with the business of Unisync Group Limited to be aggregated as one CGU for impairment testing for the year ended September 30, 2022. In the September 30, 2021 fiscal year, Utility was considered to be a separate CGU for impairment testing since it operated under local management and with non-integrated information systems.

#### (m) Provisions

Provisions for restructuring costs and legal claims, where applicable, are recognized when the Company has a legal, equitable or constructive obligation to make a future outflow of economic benefits to others as a result of past transactions or past events, it is probable that a future outflow of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the consolidated statement of financial position date using a discounted cash flow methodology. Provisions are not recognized for future operating losses.

#### (n) Share-based payment

The fair value of options granted under the stock option plan is recognized as compensation expense with a corresponding increase in share-based payment reserve within the Company's equity. The fair value is measured at the grant date and recognized over the period during which the options vest. Each tranche in an award is considered as a separate award with its own vesting period and grant date fair value.

The fair value at the grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected forfeiture rate is estimated annually based on historical forfeiture rates and expectations of future forfeiture rates.

#### (o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (p) Earnings per share

##### Basic earnings per share

Basic earnings per share is calculated by dividing net income or loss attributable to equity holders of the Company, excluding any costs to service equity other than common shares, by the weighted average number of common shares outstanding during the period.

##### Diluted earnings per share

Diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the reporting period, if dilutive. For this purpose, the number of additional shares is calculated using the assumed proceeds upon the exercise of stock options and share purchase warrants that are used to purchase common shares at the average market price during the period.

#### (q) Financial instruments

Financial assets are classified into three measurement categories on initial recognition: (i) measured as amortized cost; (ii) measured at fair value through other comprehensive income ("FVOCI"); and (iii) measured at fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

All fair value changes on liabilities designated under the fair value option are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income ("OCI") and (ii) the remaining amount of change in the fair value is presented in the consolidated statement of income (loss). All other financial liabilities are measured at amortized cost unless the fair value option is applied.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 2. Significant accounting policies (q) *Financial instruments (continued)*

#### Impairment of financial assets

An expected credit loss (“ECL”) model is used for calculating impairment of financial assets. An ECL is recognized when financial instruments are initially recognized and the amount of ECL recognized is updated at each reporting date to reflect changes in the credit risk of the financial instruments.

Financial assets carried at amortized cost are assessed at each reporting date on whether they are credit impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Company applies expected credit loss approach in determining provisions for financial assets carried at amortized cost. The approach that the Company has taken for trade and other receivables is a provision matrix approach whereby expected credit losses are recognized based on aging characterization, credit worthiness and credit insurance coverage of the customer. Specific provisions may be used where there is information that a specific customer’s expected credit risk has increased. The specific accounts are only written off once all collection avenues have been explored or when legal bankruptcy has occurred. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information. The credit risk on a financial asset is considered to have increased significantly if it is uninsured and if it is more than 90 days past due. Loss provisions for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and expensed in the consolidated statement of income (loss).

### 3. Changes in accounting standards

None.

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

The following amendments to standards have been issued by the International Accounting Standards Board (IASB) and are applicable to the Company for its annual periods beginning on and after October 1, 2022:

#### *IAS 1 — Presentation of Financial Statements*

In February 2021, the IASB issued an amendment to IAS 1 to defer the effective date of the January 2020 Classification of Liabilities as Current or Non-current (Amendments to IAS 1) by one year to annual reporting periods beginning on or after January 1, 2023. Earlier application of the January 2020 amendments continue to be permitted. In June 2021, the IASB issued an amendment to IAS 1 to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are to be applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

#### *IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors*

In February 2021, the IASB issued an amendment to IAS 8 to introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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#### 4. Accounting standards issued but not yet applied (continued)

##### *IAS 12 — Income Taxes*

In May 2021, the IASB issued an amendment to IAS 12 to narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

##### *IAS 16 — Property, Plant and Equipment*

In May 2020, the IASB issued an amendment to IAS 16 to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. Effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

##### *IAS 37 — Provisions, Contingent Liabilities and Contingent Assets*

In May 2020, the IASB issued an amendment to IAS 37 to amend the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

##### *IFRS 3, Business Combinations: Reference to the Conceptual Framework*

In May 2020, the IASB issued an amendment to IFRS 3 to add a requirement that, for transactions and other events within the scope of IAS 37, Provisions, contingent liabilities and contingent assets or IFRIC 21, Levies, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination. Also, an explicit statement was added requiring an acquirer to not recognize contingent assets acquired in a business combination.

The amendments to IFRS 3 are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. Earlier application is permitted.

The Company intends to adopt these amendments in its fiscal years in which the amendments are effective. The adoption of these amendments will not have a significant impact on the Company's consolidated financial statements.

#### 5. 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 judgment in the process of applying the accounting policies. Estimates and judgments 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) Trade and other receivables*

The Company makes a loss 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.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 5. Critical accounting estimates and judgments (continued)

#### (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 based on management's estimate of the percentage completion of the goods, and the nature of the costs for producing that particular good. 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 14). The fair value of entitlements is determined in accordance with the accounting policy in Note 2(n). 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. 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. Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize tax losses recognized as deferred tax assets. Assumptions about the generation of future taxable profits depend on managements' estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize or recognize net deferred tax assets, if any, at the reporting date could be impacted.

#### (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 indicators of 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 of disposal, using discounted cash flows expected to be derived from the tangible intangible asset, and the appropriate discount rate. During the years ended September 30, 2022 and September 30, 2021, the Company's tangible and intangible assets were determined to not be impaired.

#### (g) *Impairment of goodwill*

The Company performs an assessment of 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 of disposal, 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. During the years ended September 30, 2022 and September 30, 2021, the Company's goodwill was determined to not be impaired.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 6. Inventory

	2022	2021
	\$	\$
Raw materials	5,168,313	5,944,815
Work in process	2,265,511	1,530,718
Finished goods	48,764,975	28,732,067
	<b>56,198,799</b>	<b>36,207,600</b>

Cost of inventories recognized as an expense during the year ended September 30, 2022 amount to \$54,969,485 (2021 - \$53,826,579). During the year ended September 30, 2022, inventory was written down by \$341,566 (2021 - \$nil). The carrying amount of inventory recorded at net realizable value at September 30, 2022 was \$nil (2021 – \$1,036,050), with the remaining inventory recorded at cost.

# Unisync Corp.

## Notes to the consolidated financial statements September 30, 2022 and September 30, 2021 (Expressed in Canadian dollars)

### 7. Property, plant and equipment

	September 30, 2022							
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2021	2,622,730	5,022,933	1,993,916	999,976	404,835	115,938	1,915,672	13,076,000
Additions	-	24,324	56,679	18,129	35,230	-	104,305	238,667
Effect of foreign exchange rates	-	-	20,951	4,682	3,521	-	18,620	47,774
<b>Balance at September 30, 2022</b>	<b>2,622,730</b>	<b>5,047,257</b>	<b>2,071,546</b>	<b>1,022,787</b>	<b>443,586</b>	<b>115,938</b>	<b>2,038,597</b>	<b>13,362,441</b>
<i>Accumulated depreciation</i>								
Balance at September 30, 2021	-	1,049,226	1,313,636	712,526	218,423	118,928	776,472	4,189,211
Depreciation	-	180,813	137,873	54,277	55,575	(5,169)	328,595	751,964
Effect of foreign exchange rates	-	-	10,339	5,136	1,738	-	9,189	26,402
<b>Balance at September 30, 2022</b>	<b>-</b>	<b>1,230,039</b>	<b>1,461,848</b>	<b>771,939</b>	<b>275,736</b>	<b>113,759</b>	<b>1,114,256</b>	<b>4,967,577</b>
<i>Net carrying amount</i>								
At September 30, 2022	2,622,730	3,817,218	609,698	250,848	167,850	2,179	924,341	8,394,864

  

	September 30, 2021							
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2020	2,622,730	5,008,980	1,997,390	917,870	348,629	115,938	1,560,302	12,571,839
Additions	-	13,953	9,495	84,486	58,386	-	366,897	533,217
Effect of foreign exchange rates	-	-	(12,969)	(2,380)	(2,180)	-	(11,527)	(29,056)
<b>Balance at September 30, 2021</b>	<b>2,622,730</b>	<b>5,022,933</b>	<b>1,993,916</b>	<b>999,976</b>	<b>404,835</b>	<b>115,938</b>	<b>1,915,672</b>	<b>13,076,000</b>
<i>Accumulated depreciation</i>								
Balance at September 30, 2020	-	865,308	1,166,235	647,951	170,411	104,531	489,741	3,444,177
Depreciation	-	183,918	148,469	64,841	48,230	14,397	287,883	747,738
Effect of foreign exchange rates	-	-	(1,068)	(266)	(218)	-	(1,152)	(2,704)
<b>Balance at September 30, 2021</b>	<b>-</b>	<b>1,049,226</b>	<b>1,313,636</b>	<b>712,526</b>	<b>218,423</b>	<b>118,928</b>	<b>776,472</b>	<b>4,189,211</b>
<i>Net carrying amount</i>								
At September 30, 2021	2,622,730	3,973,707	680,280	287,450	186,412	(2,990)	1,139,200	8,886,789

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 8. Right of use assets

	2022	2021
	\$	\$
<i>Cost</i>		
Balance at September 30, 2021 and September 30, 2020	12,207,704	9,184,533
Right of use leases added	-	3,111,375
Effect of foreign exchange rates	142,484	(88,204)
<b>Balance at September 30, 2022 and September 30, 2021</b>	<b>12,350,188</b>	<b>12,207,704</b>
<i>Accumulated depreciation</i>		
Balance at September 30, 2021 and September 30, 2020	2,802,894	1,366,671
Depreciation	1,463,225	1,455,288
Effect of foreign exchange rates	91,395	(19,065)
<b>Balance at September 30, 2022 and September 30, 2021</b>	<b>4,357,514</b>	<b>2,802,894</b>
<i>Net carrying amount</i>		
<b>At September 30, 2022 and September 30, 2021</b>	<b>7,992,674</b>	<b>9,404,810</b>

The Company's right of use assets are for its distribution, sales, and administrative facilities.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 9. Intangible assets

					2022
					\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition	Standards certification	Total
<i>Cost</i>					
Balance at September 30, 2021	6,638,272	251,440	7,195,285	63,137	14,148,134
Additions	432,691	-	-	11,006	443,697
Effect of foreign exchange rates	8,312	-	-	-	8,312
Balance at September 30, 2022	7,079,275	251,440	7,195,285	74,143	14,600,143
<i>Accumulated amortization</i>					
Balance at September 30, 2021	2,665,937	229,374	2,519,352	57,851	5,472,514
Depreciation	1,014,005	22,066	766,902	5,840	1,808,813
Effect of foreign exchange rates	504	-	-	-	504
Balance at September 30, 2022	3,680,446	251,440	3,286,254	63,691	7,281,831
<i>Net carrying amount</i>					
At September 30, 2022	3,398,829	-	3,909,031	10,452	7,318,312
					2021
					\$
	Computer software	Intangible assets from Carleton acquisition	Intangible assets from Utility acquisition	Standards certification	Total
<i>Cost</i>					
Balance at September 30, 2020	5,671,408	251,440	7,195,285	63,137	13,181,270
Additions	969,854	-	-	-	969,854
Effect of foreign exchange rates	(2,990)	-	-	-	(2,990)
Balance at September 30, 2021	6,638,272	251,440	7,195,285	63,137	14,148,134
<i>Accumulated amortization</i>					
Balance at September 30, 2020	1,947,284	193,574	1,679,568	45,224	3,865,650
Depreciation	718,953	35,800	839,784	12,627	1,607,164
Effect of foreign exchange rates	(300)	-	-	-	(300)
Balance at September 30, 2021	2,665,937	229,374	2,519,352	57,851	5,472,514
<i>Net carrying amount</i>					
At September 30, 2021	3,972,335	22,066	4,675,933	5,286	8,675,620

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 10. Goodwill

	2022	2021
	\$	\$
<i>Cost</i>		
Peerless and GP	2,586,000	2,586,000
Carleton	305,049	305,049
Omega	342,893	342,893
Utility	3,150,855	3,150,855
	<b>6,384,797</b>	<b>6,384,797</b>

For the year ended September 30, 2022 and the year ended September 30, 2021, the Company assessed the goodwill of each CGU for impairment based on its value in use. To determine value in use, the Company used the 2023 budget plan and 2024 and 2025 forecasts as approved by the Board of Directors for each of the CGUs and then prepared forecasts for the two years ended 2026 and 2027 using an estimated long term revenue and variable cost growth rate of 3% (September 30, 2021 – 3%). The Company's valuation model also takes account of working capital and capital investments to maintain the condition of the assets of each CGU. The resulting forecasted cash flows were discounted using after tax rates of 13% to 14%. Based on this assessment, the goodwill attributed to each CGU was not impaired at September 30, 2022.

### 11. Loan facilities

	2022	2021
	\$	\$
Operating loan (a)	25,756,045	19,019,847
Current portion of mortgage loan (b)	281,613	245,035
Mortgage loan (b)	9,326,615	9,601,968
	<b>35,364,273</b>	<b>28,866,850</b>

Changes to the Company's debt obligations for the year ended are as follows:

	2022	2021
	\$	\$
Balance at September 30, 2021 and September 30, 2020	28,866,850	29,011,842
Drawdown of operating loan	6,736,198	-
Repayment of operating loan	-	(4,167,197)
Proceeds from mortgage loans	-	10,000,000
Repayment of mortgage loans	(245,035)	-
Repayment of term loans	-	(5,859,750)
Mortgage loans financing costs	-	(152,997)
Amortization of mortgage loans financing costs	6,260	-
Amortization of term loans financing costs	-	34,952
	<b>35,364,273</b>	<b>28,866,850</b>

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 11. Loan facilities (continued)

- (a) The Company has established two operating loan facilities totalling \$24,000,000 with a Canadian chartered bank and an operating loan facility of USD5,000,000 with the United States affiliate of the Canadian chartered bank. 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 September 30, 2022, combined drawings under the operating loan facilities were \$25,756,045 (2021 - \$19,019,847). 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 1.0%. During the year ended September 30, 2022, the Company incurred interest expense of \$763,399 (2021 - \$578,583) on borrowings under its operating loan facilities. In addition, the Company has an unutilized foreign exchange loan facility to purchase foreign exchange contracts up to an aggregate of USD18,000,000, a \$200,000 credit card facility and an unutilized \$19,000,000 interest rate swap facility. Security for the loan facilities include a second mortgage on the Company's land and buildings, general security agreements, a specific pledge of certain assets and inter-company guarantees. As at September 30, 2022, the Company was in compliance with its covenants except for the ratio of debt to tangible net assets covenant (Note 22) for which it received forbearance from its bank.
- (b) On July 26, 2021, the Company established two mortgage loan facilities with the Business Development Bank of Canada ("BDC") in amounts of \$3,880,000 (the "Peerless" mortgage loan) and \$6,120,000 (the "Utility" mortgage loan) secured by first mortgages over the Companies land and buildings, by general security agreements and inter-company guarantees. The BDC mortgage loans were used to repay outstanding balances under existing term loans facilities and to repay postponed shareholder advances. Advances under the Peerless and Utility mortgage loans bear interest at a fixed rate of 4.10% until May 1, 2026. The Peerless mortgage loan is repayable in blended monthly instalments of principal and interest of \$23,717 that began on November 1, 2021 over a 240 month term. The Utility mortgage loan is repayable in blended monthly instalments of principal and interest of \$32,642 that began on November 1, 2021 over a 300 month term. During the year ended September 30, 2022, the Company recorded interest expense of \$374,919 (2021 - \$52,558) on borrowings under its new BDC mortgage loans. As at September 30, 2022, the Company was in compliance with the covenants (Note 22) of its mortgage loan facilities.

### 12. Lease liabilities

	2022	2021
	\$	\$
Balance at September 30, 2021 and September 30, 2020	<b>10,979,093</b>	8,867,429
Leases added	-	3,111,375
Repayment of lease liabilities	<b>(1,697,706)</b>	(1,635,720)
Interest accretion	<b>594,684</b>	667,208
Effect of foreign exchange rates	<b>58,916</b>	(31,199)
Balance at September 30, 2022 and September 30, 2021	<b>9,934,987</b>	10,979,093

During the year ended September 30, 2022, the Company accreted interest expense of \$594,684 (2021 - \$667,208) on its long-term lease liabilities.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 13. 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 to purchase the 10% interest in Peerless held by the minority partner 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. On September 30, 2021, the minority partner agreed to defer payment of the put option until October 15, 2022. The Company is in negotiations with the minority partner to extend the payment date of the put option.

### 14. 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, 2020	18,687,228	29,589,432
Shares issued on exercise of stock options (Note 15 (d))	300,000	800,317
Balance, September 30, 2021	18,987,228	30,389,749
Shares issued on exercise of stock options (Note 15 (d))	25,000	57,739
<b>Balance, September 30, 2022</b>	<b>19,012,228</b>	<b>30,447,488</b>

#### (c) Stock options

The stock option plan provides that, subject to the requirements of the TSX Exchange (the "Exchange"), the aggregate number of common shares reserved for issuance under the stock option plan may not exceed 10% of the issued and outstanding common shares of the Company.

On October 27, 2020, 1,250,00 stock options were granted for a term of five years of which 1,020,000 stock options vest over five years annually in arrears from the date in which they were granted and 230,000 stock options vest over three years annually in arrears from the date in which they were granted.

On March 15, 2022, 500,000 were granted for a term of five years of which 350,000 stock options vest over five years annually in arrears from the date in which they were granted and 150,000 stock options vest over three years annually in arrears from the date in which they were granted.

The fair value of the options granted during the year ended September 30, 2022 was \$505,015 (2021 - \$693,946).

During the year ended September 30, 2022, 25,000 options (2021 - 300,000) were exercised at a weighted average exercise price of \$1.75 (2021 - \$1.86) and 700,000 options were forfeited (2021 - 255,000).

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 14. Capital stock (c) stock options (continued)

The following table summarizes stock option transactions during the year:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of year	1,740,000	2.13	1,045,000	2.48
Granted during the year	500,000	2.90	1,250,000	1.75
Exercised during the year	(25,000)	1.75	(300,000)	1.86
Forfeited during the year	(700,000)	2.56	(255,000)	2.03
Outstanding, end of year	1,515,000	2.20	1,740,000	2.13

The following table summarizes information about stock options outstanding and exercisable at September 30, 2022:

Range of exercise prices	Options outstanding		Options exercisable		
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of Exercisable options	Weighted average exercise price
		years	\$		\$
\$3.08	80,000	0.14	3.08	64,000	3.08
\$2.90	500,000	4.45	2.90	-	2.90
\$1.75	935,000	3.07	1.75	223,667	1.75
\$1.75 to \$3.08	1,515,000	3.37	2.20	287,667	2.05

As at September 30, 2022, 287,667 options (2021 - 356,500) were exercisable with a weighted average exercise price of \$2.05 (2021 - \$2.89) per share.

Based on the above vesting schedule, a stock option compensation expense was recognized for the year ended September 30, 2022 of \$407,961 (2021 - \$424,596) 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.

The inputs to the option model are as follows:

	2022		2021	
Expected dividend	\$	-	\$	-
Expected volatility		85.9%		87.7%
Weighted average risk free interest rate		1.0%		0.6%
Weighted average remaining life in years		3.4		3.3
Weighted average forfeiture rate		3.0%		3.2%

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 14. Capital stock (continued)

#### (d) Earnings per share

The following table sets out the computation of basic and diluted net loss per common share:

	2022	2021
	\$	\$
Numerator		
Net income (loss)		
attributable to Unisync Corp. shareholders	<b>(1,544,711)</b>	(2,829,887)
Denominator		
Weighted average common shares outstanding - basic	<b>19,010,516</b>	18,931,886
Effect of dilutive securities	<b>11,473</b>	-
Weighted average common shares outstanding - diluted	<b>19,021,989</b>	18,931,886
Net income (loss) per common share		
attributable to Unisync Corp. shareholders		
Basic	<b>(0.08)</b>	(0.15)
Diluted	<b>(0.08)</b>	(0.15)

### 15. 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:

	2022	2021
	\$	\$
Income tax expense (recovery)	<b>(5,377)</b>	305,857
Deferred tax expense (recovery)	<b>107,733</b>	(1,011,173)
Income tax expense (recovery)	<b>102,356</b>	(705,316)

The tax on the Company's net 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:

	2022	2021
	\$	\$
Net income (loss) before income taxes	<b>(1,245,872)</b>	(3,281,884)
Tax rate	<b>26.5%</b>	27.5%
	<b>(330,014)</b>	(901,435)
Taxes attributable to minority partner	<b>(51,611)</b>	(66,378)
True-ups	<b>368,968</b>	141,498
Permanent differences	<b>115,013</b>	120,999
Income tax expense (recovery)	<b>102,356</b>	(705,316)

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 15. Income taxes (continued)

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

	2022	2021
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	3,995,973	4,330,385
Deferred tax liabilities		
Property, plant and equipment	(1,927,364)	(2,154,043)
	<u>2,068,609</u>	<u>2,176,342</u>

The Company has non-capital losses of approximately \$12,540,000 (2021 - \$14,860,000) 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 \$3,386,000 (2021 - \$4,012,200) that is included in the deferred tax asset balance at September 30, 2022. 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 September 30, 2022 for the upcoming fiscal year.

### 16. Expenses by nature

	2022	2021
	\$	\$
<b>Direct expenses:</b>		
Materials	49,819,883	48,087,635
Wages and benefits	10,354,329	9,047,491
Delivery	6,193,409	3,445,991
Subcontract fees	4,122,093	4,084,895
Rent, utilities and other property costs	1,891,700	1,450,704
Insurance	2,042	50,556
Other	383,554	510,968
	<u>72,767,010</u>	<u>66,678,240</u>
<b>General and administrative expenses:</b>		
Wages and benefits	11,184,927	9,739,691
Data services, system maintenance, telecommunications and software licenses	2,691,314	2,505,697
Legal, bank, insurance and professional services	1,845,625	1,735,426
Advertising, marketing and other promotion costs	406,658	515,441
Rent, utilities and other property costs	421,431	447,813
Other	2,070,708	1,527,232
	<u>18,620,663</u>	<u>16,471,300</u>

### 17. Commitments and contingencies

- (a) At September 30, 2022, the Company had \$1,485,500 (2021 - \$2,471,000) 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 September 30, 2022.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 18. Economic dependence

During the year ended September 30, 2022, revenue from the Canadian military and other Canadian governmental agencies accounted for 15% of total revenue (2021 - 27%) and revenue from two airline industry customers accounted for 24% of total revenue (2021 - 15%). As of September 30, 2022, 3.4% (2021 - 17.0%) of trade receivables were from the Canadian military and other Canadian governmental agencies and 22.3% (2021 - 27.3%) of trade receivables were from two airline industry customers.

### 19. Related party transactions

The Company paid subcontract fees of \$508,943 (2021 - \$372,536) to a garment manufacturing company owned by a member of the board of directors.

The Company paid rent of \$29,268 (2021 - \$29,268) for the Company's head office location to a company having two members of the Company's board of directors in common.

The Company expensed \$52,264 (2021 - \$126,628) in share based payment to non-salaried members of the Company's board of directors.

The Company's minority partner in the Peerless segment, a member of management, received an income allocation of \$196,483 (2021 - \$253,319) and a distribution of \$180,222 (2021 - \$305,421).

### 20. Key management personnel

	2022	2021
	\$	\$
Salaries and wages	2,442,191	2,735,120
Share-based payment	309,910	235,817
	<u>2,752,101</u>	<u>2,970,937</u>

Key management personnel are the Company's officers and directors.

### 21. Financial instruments

#### *Financial instruments and risk management*

The Company's activities result in exposure to a variety of financial risks, including risks relating to interest rates, credit and liquidity. Details of these risks, how they arise, and the objectives and policies for managing them are described as follows:

#### (a) *Interest rate risk*

The Company is exposed to interest rate risk as its operating loan credit facilities bear interest at variable rates. The Company has not used derivative instruments to reduce its exposure to this interest rate risk. A 1% change in the variable interest rate would have resulted in a \$227,000 (2021 - \$261,000) change to current year interest expense.

#### (b) *Credit risk*

The Company's principal financial assets subject to credit risk are cash and trade and other receivables. The carrying amounts of these financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at the date of the consolidated statement of financial position.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 21. Financial instruments (b) credit risk (continued)

The Company's credit risk is primarily attributable to its trade receivables. As of September 30, 2022, 3.4% (2021 - 17.0%) of trade receivables were from the Government of Canada and 68.6% (2021 - 40.7%) of trade receivables were from companies that the Company has had insured for loss with an AA- rated credit insurance company. Under the Company's \$5,000,000 credit insurance policy, 90% of receivables losses greater than \$2,000 and in excess of a \$7,500 aggregate deductible are insured at 90% of the loss amount. The amounts disclosed in the consolidated statement of financial position are net of a loss provision for doubtful accounts, estimated by the management of the Company based on previous experience and its assessment of the current economic environment. The Company reviews these amounts regularly to ensure credit limits are not exceeded. The credit risk on cash is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

Aging of trade and other receivables is as follows:

	2022	2021
	\$	\$
Not past due	10,202,364	8,297,707
Past due 1-30 days	2,601,261	2,335,473
Past due 31-60 days	513,700	691,543
Past due > 60 days	70,397	501,010
	<b>13,387,722</b>	11,825,733
Provision for doubtful accounts	<b>(114,318)</b>	(99,397)
	<b>13,273,404</b>	11,726,336

### (c) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. It has unused lines of credit available to meet the obligations in the following table below.

	2022				
	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Trade payables and accrued liabilities	12,580,607	-	-	-	12,580,607
Operating loan	25,756,045	-	-	-	25,756,045
Mortgage loans	676,314	2,028,941	1,352,628	10,815,215	14,873,098
Long-term lease liabilities	1,816,413	4,453,189	2,860,746	3,911,865	13,042,213
Due to minority partner	-	1,500,000	-	-	1,500,000

  

	2021				
	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Trade payables and accrued liabilities	5,008,596	-	-	-	5,008,596
Operating loan	19,019,847	-	-	-	19,019,847
Mortgage loans	619,954	2,028,941	1,352,628	11,491,529	15,493,052
Long-term lease liabilities	1,736,948	4,313,552	2,786,563	5,269,194	14,106,257
Due to minority partner	-	1,500,000	-	-	1,500,000

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 21. Financial instruments (continued)

#### (d) *Currency risk*

The Company may undertake sales and purchase transactions in foreign currencies, and therefore is subject to gains or losses due to foreign currency fluctuations. The consolidated statement of financial position includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in United States dollars.

	2022	2021
	\$	\$
Trade and other receivables	2,004,496	2,339,239
Operating loan	13,959,964	10,477,171
Trade payables and accrued liabilities	3,463,835	2,296,165
Deferred revenue	8,464,320	6,367,020

A 1% depreciation or appreciation in the Canadian dollar against the US dollar on the above amounts, assuming all other variables remained the same, would have resulted in an increase or decrease in foreign exchange gain (loss) of \$86,911 (2021 - \$52,411) recognized in the consolidated statements of income (loss) and a cumulative translation adjustment of \$151,925 (2021 - \$115,600) in the Company's consolidated statements of comprehensive earnings.

#### (e) *Fair value*

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value in the fair value hierarchy.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3 – Inputs that are not based on observable market data. The Company has no financial instruments classified in Level 3.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 21. Financial instruments (e) Fair Value (continued)

The following tables present the carrying amounts and fair values of the Company's financial assets and liabilities, including their levels within the fair value hierarchy. Fair value information for financial assets and financial liabilities not measured at fair value is not presented if the carrying amount is a reasonable approximation of fair value.

as at September 30, 2022	Carrying Value		Fair value			
	Fair value through profit or loss	Amortized cost	Fair value through OCI	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	-	97,261	-	97,261	-	-
Trade and other receivables	-	13,273,404	-	-	13,273,404	-
Cash surrender value of life insurance policy	-	86,601	-	-	-	86,601
	-	13,457,266	-	97,261	13,273,404	86,601
<b>Financial liabilities</b>						
Operating loan	-	25,756,045	-	-	25,756,045	-
Trade payables and accrued liabilities	-	12,580,607	-	-	12,580,607	-
Current and long-term mortgage loans	-	9,608,228	-	-	9,608,228	-
Current and long-term lease liabilities	-	9,934,987	-	-	9,934,987	-
Due to minority partner	-	1,500,000	-	-	1,500,000	-
	-	59,379,867	-	-	59,379,867	-

  

as at September 30, 2021	Carrying Value		Fair value			
	Fair value through profit or loss	Amortized cost	Fair value through OCI	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	-	275,456	-	275,456	-	-
Trade and other receivables	-	11,726,336	-	-	11,726,336	-
Cash surrender value of life insurance policy	-	86,601	-	-	-	86,601
	-	12,088,393	-	275,456	11,726,336	86,601
<b>Financial liabilities</b>						
Operating loan	-	19,019,847	-	-	19,019,847	-
Trade payables and accrued liabilities	-	5,008,596	-	-	5,008,596	-
Current and long-term mortgage loans	-	9,847,003	-	-	9,847,003	-
Current and long-term lease liabilities	-	10,979,093	-	-	10,979,093	-
Due to minority partner	-	1,500,000	-	-	1,500,000	-
	-	46,354,539	-	-	46,354,539	-

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 22. Capital management

The Company's objectives when managing capital are to:

- (a) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- (b) maintain capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes equity and long-term debt (including due to minority partner) in the definition of capital.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, issue new shares or issue new debt.

Capital management objectives, policies and procedures are unchanged since the preceding year.

Under the terms of its operating loan agreement (Note 11), the Company must satisfy certain restrictive covenants as to minimum financial ratios as follows:

- (i) The ratio of debt to tangible net assets must not be greater than 3:1.
- (ii) The ratio of current assets to current liabilities must be greater than 1.25:1.
- (iii) The debt service coverage ratio of cash flow from operations to debt obligations must be greater than 1.25:1.

As at September 30, 2022 the Company was in compliance with covenants (ii) and (iii) and had received a forbearance from the bank for its default of covenant (i) for the year ended September 30, 2022. As at September 30, 2021 the Company was in compliance with covenants (i) and (ii) and had received a bank amendment of covenant (iii) for the year ended September 30, 2021.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 23. 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, Peerless is primarily engaged in manufacturing products for Canadian government agencies while UGL is primarily involved in distributing products to corporate entities in North America. The segments are separately managed for reporting purposes.

Performance is measured based on segment net 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.

				2022
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	15,430,888	81,418,621	(542,743)	<b>96,306,766</b>
Direct expenses	12,020,065	61,289,688	(542,743)	<b>72,767,010</b>
General and administrative expenses	1,295,213	16,177,196	1,148,254	<b>18,620,663</b>
Depreciation and amortization	50,373	3,534,589	439,040	<b>4,024,002</b>
	2,065,237	417,148	(1,587,294)	<b>895,091</b>
Interest expense	100,404	1,632,598	-	<b>1,733,002</b>
Share based payment	-	-	407,961	<b>407,961</b>
Net income (loss) before income taxes	1,964,833	(1,215,450)	(1,995,255)	<b>(1,245,872)</b>
Capital expenditures on property, plant and equipmer	4,350	234,317	-	<b>238,667</b>
Capital expenditures on intangible assets	-	443,697	-	<b>443,697</b>
Total assets	10,401,095	81,789,802	12,172,868	<b>104,363,765</b>
Property, plant and equipment	2,609,588	5,785,276	-	<b>8,394,864</b>
Right of use assets	-	7,992,674	-	<b>7,992,674</b>
Intangible assets	-	7,318,312	-	<b>7,318,312</b>
Goodwill	2,586,000	3,798,797	-	<b>6,384,797</b>
Liabilities, excluding due to minority partner	5,897,004	68,669,391	-	<b>74,566,395</b>

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

### 23. Segmented information (continued)

				2021
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	18,460,112	68,922,064	(1,096,997)	86,285,179
Direct expenses	14,369,669	53,405,568	(1,096,997)	66,678,240
General and administrative expenses	1,409,329	13,814,828	1,247,143	16,471,300
Depreciation and amortization	71,387	3,309,066	429,737	3,810,190
	2,609,727	(1,607,398)	(1,676,880)	(674,551)
Interest expense	76,538	1,353,604	752,595	2,182,737
Share based payment	-	-	424,596	424,596
Net income (loss) before income taxes	2,533,189	(2,961,002)	(2,854,071)	(3,281,884)
Capital expenditures on property, plant and equipme	13,391	516,258	3,568	533,217
Capital expenditures on intangible assets	-	969,854	-	969,854
Total assets	10,880,289	64,038,775	13,100,699	88,019,763
Property, plant and equipment	2,660,281	6,226,508	-	8,886,789
Right of use assets	-	9,404,810	-	9,404,810
Intangible assets	-	8,675,620	-	8,675,620
Goodwill	2,586,000	3,798,797	-	6,384,797
Liabilities, excluding due to minority partner	6,540,629	50,687,775	-	57,228,404

### 24. Subsequent events

- (a) In November 2022, the Company received \$2,000,000 of shareholder advances. The advances bear interest at 12% per annum payable quarterly in arrears and are subject to a processing fee of 1.5% per quarter payable quarterly in arrears. The advances and any accrued interest and processing fees are to be repaid at the earlier of November 28, 2023, or on demand by a majority of the shareholder lenders. If the advances and any accrued interest and processing fees are not repaid by November 28, 2023, a majority of the shareholder lenders may request, and the Company will grant security for the outstanding advances and any accrued interest and processing fees behind that of the Company's operating loan (Note 11(a)) and term loan (Note 11(b)) lenders. In addition, any amounts not repaid by November 28, 2023, will be subject to a minimum interest rate increase of 3% per annum and additional processing fees to be negotiated but shall at a minimum be 6% per annum payable in advance. The Company may repay the advances in whole or in part prior to November 23, 2023, without penalty.

# Unisync Corp.

## Notes to the consolidated financial statements

September 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

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### 24. Subsequent events (continued)

- (b) On December 1, 2022, the Company entered into a lease of a 40,561 square foot facility in Guelph, Ontario in which the Company intends to establish a new satellite distribution centre to its existing Guelph facility to accommodate the growth of its Canadian based customers. Under the terms of the 122-month lease commencing December 1, 2022, the Company is committed to minimum lease payments with respect to the basic rent of the business premises as follows:

	\$
2023	471,522
2024	645,199
2025	667,781
2026	691,153
2027	715,343
Thereafter	4,293,480
	<hr/> 7,484,478

- (c) On December 14, 2022, the Company sold its New Jersey based hospitality business and assets (consisting of inventory, prepaid deposits, equipment and goodwill less deferred revenue) operated under the trade name Red the Uniform Tailor for an estimated \$1.9 million. The sales proceeds were received in the form of cash of \$1.4 million at closing and a \$0.5 million promissory note to be paid in four equal consecutive semi-annual payments commencing six (6) months following the closing.