

Condensed interim consolidated financial statements of

# **Unisync Corp.**

As at and for the three and nine month period ended June 30, 2022

# Unisync Corp.

June 30, 2022

## Table of contents

Notice of no auditor review.....	2
Condensed interim consolidated statements of loss .....	3
Condensed interim consolidated statements of comprehensive loss .....	4
Condensed interim consolidated statements of financial position.....	5
Condensed interim consolidated statements of changes in equity .....	6
Condensed interim consolidated statements of cash flows .....	7
Condensed interim notes to the consolidated financial statements .....	8-22

## **Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed these condensed unaudited interim consolidated financial statements as at and for the three and nine months ended June 30, 2022.

# Unisync Corp.

## Condensed interim consolidated statements of loss

For the three and nine months ended June 30, 2022 and June 30, 2021

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30	June 30	June 30	June 30
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Revenue</b>	<b>24,628,495</b>	20,654,402	<b>71,025,821</b>	66,867,643
Direct expenses (Note 15)	<b>18,991,361</b>	16,098,931	<b>53,785,117</b>	50,663,023
General and administrative expenses (Note 15)	<b>4,410,691</b>	4,270,939	<b>13,430,615</b>	12,646,149
Depreciation and amortization (Notes 5,6,7)	<b>1,168,911</b>	1,113,888	<b>3,317,695</b>	3,075,696
	<b>57,532</b>	(829,356)	<b>492,394</b>	482,775
Interest expense (Notes 9,10,11)	<b>452,901</b>	483,717	<b>1,127,207</b>	1,523,717
Share-based payment (Note 13)	<b>113,824</b>	88,052	<b>323,932</b>	351,658
<b>Net loss before income taxes</b>	<b>(509,193)</b>	(1,401,125)	<b>(958,745)</b>	(1,392,600)
Income tax recovery (Note 14)	<b>(93,241)</b>	(360,675)	<b>(156,798)</b>	(330,545)
<b>Net loss</b>	<b>(415,952)</b>	(1,040,450)	<b>(801,947)</b>	(1,062,055)
<b>Attributable to</b>				
Unisync Corp. shareholders	<b>(444,496)</b>	(1,101,252)	<b>(958,479)</b>	(1,280,264)
Minority partner	<b>28,544</b>	60,802	<b>156,532</b>	218,209
	<b>(415,952)</b>	(1,040,450)	<b>(801,947)</b>	(1,062,055)
<b>Net loss per share attributable to Unisync Corp. shareholders</b>				
Basic	<b>(0.02)</b>	(0.06)	<b>(0.05)</b>	(0.07)
Diluted	<b>(0.02)</b>	(0.06)	<b>(0.05)</b>	(0.07)
<b>Weighted average number of shares</b>	<b>19,012,228</b>	18,937,228	<b>19,009,939</b>	18,928,986
<b>Diluted weighted number of shares outstanding</b>	<b>19,083,456</b>	18,950,707	<b>19,128,113</b>	18,928,986

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

# Unisync Corp.

## Condensed interim consolidated statements of comprehensive loss

For the three and nine months ended June 30, 2022 and June 30, 2021

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Net loss	(415,952)	(1,040,450)	(801,947)	(1,062,056)
Items that may be reclassified subsequently to income or loss				
Other comprehensive income, net of taxes				
Currency translation adjustment	(145,102)	(12)	35,132	1,037
Comprehensive loss	(561,054)	(1,040,462)	(766,815)	(1,061,019)
<b>Attributable to</b>				
Unisync Corp. shareholders	(589,598)	(1,101,264)	(923,347)	(1,279,227)
Minority partner	28,544	60,802	156,532	218,209
	(561,054)	(1,040,462)	(766,815)	(1,061,018)

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

# Unisync Corp.

## Condensed interim consolidated statements of financial position

As at June 30, 2022 and September 30, 2021

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2022	September 30, 2021
	\$	\$
<b>Assets</b>		
Current assets		
Cash	11,428	275,456
Trade and other receivables	11,729,003	11,726,336
Inventory (Note 4)	49,327,584	36,207,600
Prepaid expenses and deposits	3,464,503	4,195,412
	<b>64,532,518</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 5)	8,500,728	8,886,789
Right of use assets (Note 6)	8,292,389	9,404,810
Deferred tax asset (Note 14)	2,333,140	2,176,342
Intangible assets (Note 7)	7,500,301	8,675,620
Goodwill (Note 8)	6,384,797	6,384,797
	<b>97,630,474</b>	<b>88,019,763</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan (Note 9)	25,905,387	19,019,847
Trade payables and accrued liabilities	8,453,906	5,008,596
Deferred revenue	13,246,384	12,373,865
Current portion of mortgage loans (Note 10)	278,746	245,035
Current portion of long-term lease liabilities (Note 11)	1,152,562	1,067,147
Due to minority partner (Note 12)	1,500,000	-
	<b>50,536,985</b>	<b>37,714,490</b>
Non-current liabilities		
Mortgage loans (Note 10)	9,396,389	9,601,968
Long-term lease liabilities (Note 11)	8,959,237	9,911,946
Due to minority partner (Note 12)	-	1,500,000
	<b>68,892,611</b>	<b>58,728,404</b>
Commitments and contingencies (Note 16)		
<b>Equity</b>		
Share capital (Note 13)	30,447,488	30,389,749
Share-based payment reserve	2,166,143	1,856,200
Deficit	(3,795,698)	(2,872,351)
Equity attributable to Unisync Corp. shareholders	28,817,933	29,373,598
Deficit attributable to minority partner	(80,070)	(82,239)
	<b>28,737,863</b>	<b>29,291,359</b>
	<b>97,630,474</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 condensed interim consolidated financial statements.

# Unisync Corp.

Condensed interim consolidated statements of changes in equity  
 For the three and nine months ended June 30, 2022 and June 30, 2021  
 (Expressed in Canadian dollars)  
 (Unaudited)

	Capital stock		Share-based payment reserve	Deficit	Equity attributable to Unisync Corp. shareholders	Minority Interest	Total equity
	Common shares	Amount					
		\$	\$	\$	\$	\$	\$
<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 13 (d))	250,000	632,960	(195,460)	-	437,500	-	437,500
Share-based payment	-	-	351,658	-	351,658	-	351,658
Distribution to minority partner	-	-	-	-	-	(237,973)	(237,973)
Net loss	-	-	-	(1,280,264)	(1,280,264)	218,209	(1,062,055)
Other comprehensive income	-	-	-	1,037	1,037	-	1,037
<b>Balance,</b>							
<b>June 30, 2021</b>	<b>18,937,228</b>	<b>30,222,392</b>	<b>1,830,619</b>	<b>(1,341,058)</b>	<b>30,711,953</b>	<b>(49,901)</b>	<b>30,662,052</b>
<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 13 (c))	25,000	57,739	(13,989)	-	43,750	-	43,750
Share-based payment	-	-	323,932	-	323,932	-	323,932
Distribution to minority partner	-	-	-	-	-	(154,363)	(154,363)
Net loss	-	-	-	(958,479)	(958,479)	156,532	(801,947)
Other comprehensive income	-	-	-	35,132	35,132	-	35,132
<b>Balance,</b>							
<b>June 30, 2022</b>	<b>19,012,228</b>	<b>30,447,488</b>	<b>2,166,143</b>	<b>(3,795,698)</b>	<b>28,817,933</b>	<b>(80,070)</b>	<b>28,737,863</b>

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

# Unisync Corp.

## Condensed interim consolidated statements of cash flows

For the three and nine months ended June 30, 2022 and June 30, 2021

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		nine months ended	
	June 30,	June 30,	June 30,	June 30,
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(415,952)	(1,040,450)	(801,947)	(1,062,055)
Adjustments for:				
Interest expense	452,901	483,717	1,127,207	1,523,717
Income tax recovery	(93,241)	(360,675)	(156,798)	(330,545)
Income taxes (paid) refunded	41,939	-	(131,291)	(163,170)
Depreciation and amortization	1,168,911	1,113,888	3,317,695	3,075,696
Share-based payment	113,824	88,052	323,932	351,658
	1,268,382	284,532	3,678,798	3,395,301
Changes in non-cash working capital items				
Trade and other receivables	1,608,566	1,520,436	(2,667)	(837,705)
Inventory	(1,674,794)	1,611,688	(13,119,984)	3,945,107
Prepaid expenses and deposits	682,382	(1,128,007)	730,909	979,827
Trade payables and accrued liabilities	444,321	(668,133)	3,576,599	245,699
Deferred revenue	(3,074,469)	(15,591)	872,519	122,188
Net cash used in/from operating activities	(745,612)	1,604,925	(4,263,826)	7,850,417
<b>Investing activities</b>				
Purchase of property, plant and equipment	(107,604)	(65,209)	(212,885)	(422,689)
Purchase of intangible assets	(72,578)	(323,782)	(420,363)	(803,695)
Net cash used in investing activities	(180,182)	(388,991)	(633,248)	(1,226,384)
<b>Financing activities</b>				
Increase in operating loan	1,978,120	(258,045)	6,885,540	(3,532,403)
Mortgage loans repayments	(67,922)	-	(176,414)	-
Mortgage loans financing costs	-	-	(236)	-
Term loans repayments	-	(285,750)	-	(857,250)
Repayment of lease liabilities	(424,242)	(398,895)	(1,264,516)	(1,161,428)
Interest paid	(321,558)	(311,811)	(733,979)	(1,152,778)
Distributions to minority partner	(58,550)	(75,470)	(154,363)	(237,973)
Proceeds on exercise of stock options	-	-	43,750	-
Net cash from financing activities	1,105,848	(1,329,971)	4,599,782	(6,941,832)
Effect of foreign exchange rates	(326,858)	138,287	33,264	331,452
Net cash inflows (outflows)	(146,804)	24,250	(264,028)	(317,799)
Cash, beginning of period	158,232	210,996	275,456	221,593
<b>Cash, end of period</b>	<b>11,428</b>	<b>235,246</b>	<b>11,428</b>	<b>235,246</b>

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

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

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### 1. Nature of business

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

Since March 2020, there has been a global pandemic of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the world governments on travel, and business operations. After some staff layoffs at the onset of the pandemic, the Company has brought its employees back to work while availing itself of the government stimulus subsidies to support its cash flow. Although there are clear signs that the effectiveness of the current COVID-19 vaccination programs is allowing many businesses to resume normal operations, at this time, the extent that the impact the COVID-19 pandemic may have on the Company is uncertain as this will depend on future developments that cannot be predicted with confidence. While the duration of the COVID-19 pandemic is unknown, the Company anticipates that the economic impact of the pandemic may continue to cause some reduced customer demand, supply chain disruptions, and continued government regulations, all of which may negatively impact the Company's business and financial condition.

### 2. Basis of presentation and significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements but have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended September 30, 2021. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted.

These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's annual filings for the year ended September 30, 2021 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

These condensed interim consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on August 12, 2022.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

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### 3. Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) *Trade and other receivables*

The Company makes a provision for doubtful accounts on a customer by customer basis to provide for possible uncollectible accounts. This requires judgment on the part of management and prior collection history.

#### (b) *Inventory*

The Company determines the value of work in progress inventory ("WIP") and estimated net realizable value at the end of each reporting period. Management allocates costs, such as for materials, labour attributable to goods in production and an allocation of overhead, to WIP 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 13). The fair value of entitlements is determined in accordance with the accounting policy in Note 2(n) of the audited consolidated financial statements for the year ended September 30, 2021. 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.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

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

#### (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 to sell, using discounted cash flows expected to be derived from the tangible intangible asset, and the appropriate discount rate.

#### (g) Impairment of goodwill

The Company 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.

#### (h) Allocation of purchase consideration

Business combinations require judgment and estimates to be made at the date of acquisition in relation to determining the fair value of the asset acquired and liabilities assumed and the consideration paid. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgments and estimates about future events, including but not limited to estimates of future earnings, future operating costs and capital expenditures, and discount rates. Changes to the provisional measurements of assets and liabilities acquired may be retrospectively adjusted when new information is obtained until the final measurements are determined.

### 4. Inventory

	June 30, 2022	September 30, 2021
	\$	\$
Raw materials	6,384,636	5,944,815
Work in process	1,487,789	1,530,718
Finished goods	41,455,159	28,732,067
	<b>49,327,584</b>	<b>36,207,600</b>

Cost of inventories recognized as an expense during the nine months ended June 30, 2022 amounted to \$36,223,292 (June 30, 2021 - \$36,637,231). During the nine months ended June 30, 2022, inventory was written down by \$nil (June 30, 2021 - \$nil) against the allowance for obsolescence reserve. The carrying amount of inventory recorded at net realizable value at June 30, 2022 was \$901,050 (September 30, 2021 - \$1,036,050), with the remaining inventory recorded at cost.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 5. Property, plant and equipment

	June 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	-	22,455	56,679	12,015	32,664	-	89,072	212,885
Effect of foreign exchange rates	-	-	3,145	703	529	-	2,795	7,172
<b>Balance at June 30, 2022</b>	<b>2,622,730</b>	<b>5,045,388</b>	<b>2,053,740</b>	<b>1,012,694</b>	<b>438,028</b>	<b>115,938</b>	<b>2,007,539</b>	<b>13,296,057</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	-	136,029	138,910	38,400	45,495	(5,022)	248,547	602,359
Effect of foreign exchange rates	-	-	1,626	414	273	-	1,446	3,759
<b>Balance at June 30, 2022</b>	<b>-</b>	<b>1,185,255</b>	<b>1,454,172</b>	<b>751,340</b>	<b>264,191</b>	<b>113,906</b>	<b>1,026,465</b>	<b>4,795,329</b>
<i>Net carrying amount</i>								
At June 30, 2022	<b>2,622,730</b>	<b>3,860,133</b>	<b>599,568</b>	<b>261,354</b>	<b>173,837</b>	<b>2,032</b>	<b>981,074</b>	<b>8,500,728</b>
	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	<b>2,622,730</b>	<b>3,973,707</b>	<b>680,280</b>	<b>287,450</b>	<b>186,412</b>	<b>(2,990)</b>	<b>1,139,200</b>	<b>8,886,789</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 6. Right of use assets

	June 30, 2022
	\$
<i>Cost</i>	
Balance at September 30, 2021	12,207,704
Right of use leases added	-
Effect of foreign exchange rates	21,387
<b>Balance at June 30, 2022</b>	<b>12,229,091</b>
<i>Accumulated depreciation</i>	
Balance at September 30, 2021	2,802,894
Depreciation	1,119,516
Effect of foreign exchange rates	14,292
<b>Balance at June 30, 2022</b>	<b>3,936,702</b>
<i>Net carrying amount</i>	
<b>At June 30, 2022</b>	<b>8,292,389</b>
	September 30, 2021
	\$
<i>Cost</i>	
Balance at September 30, 2020	9,184,533
Right of use leases added	3,111,375
Effect of foreign exchange rates	(88,204)
<b>Balance at September 30, 2021</b>	<b>12,207,704</b>
<i>Accumulated depreciation</i>	
Balance at September 30, 2020	1,366,671
Depreciation	1,455,288
Effect of foreign exchange rates	(19,065)
<b>Balance at September 30, 2021</b>	<b>2,802,894</b>
<i>Net carrying amount</i>	
<b>At September 30, 2021</b>	<b>9,404,810</b>

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

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 7. Intangible assets

						June 30, 2022
						\$
	Computer software	Customer relationships from Carleton acquisition	Customer relationships from Utility acquisition	Standards certification	Total	
<i>Cost</i>						
Balance at September 30, 2021	6,638,972	251,440	7,195,285	63,137	14,148,834	
Additions	415,363	-	-	5,000	420,363	
Effect of foreign exchange rates	1,248	-	-	-	1,248	
<b>Balance at June 30, 2022</b>	<b>7,055,583</b>	<b>251,440</b>	<b>7,195,285</b>	<b>68,137</b>	<b>14,570,445</b>	
<i>Accumulated amortization</i>						
Balance at September 30, 2021	2,665,937	229,374	2,519,352	57,851	5,472,514	
Amortization	943,123	22,066	629,838	793	1,595,820	
Effect of foreign exchange rates	1,810	-	-	-	1,810	
<b>Balance at June 30, 2022</b>	<b>3,610,870</b>	<b>251,440</b>	<b>3,149,190</b>	<b>58,644</b>	<b>7,070,144</b>	
<i>Net carrying amount</i>						
<b>At June 30, 2022</b>	<b>3,444,713</b>	<b>-</b>	<b>4,046,095</b>	<b>9,493</b>	<b>7,500,301</b>	
						September 30, 2021
						\$
	Computer software	Customer relationships from Carleton acquisition	Customer relationships 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	(2,290)	-	-	-	(2,290)	
Balance at September 30, 2021	6,638,972	251,440	7,195,285	63,137	14,148,834	
<i>Accumulated amortization</i>						
Balance at September 30, 2020	1,947,284	193,574	1,679,568	45,224	3,865,650	
Amortization	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	3,973,035	22,066	4,675,933	5,286	8,676,320	

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 8. Goodwill

	June 30, 2022	September 30 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>

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 cash-generating unit ("CGU"). There has been no change to the goodwill since each acquisition.

### 9. Operating loan

The Company has established two operating loan facilities totalling \$25,500,000 with a Canadian chartered bank and an operating loan facility of US\$5,000,000 with the United States affiliate of the Canadian chartered bank to finance its working capital requirements. Borrowings under these revolving loan facilities are subject to normal margining requirements that limit borrowings to acceptable accounts receivable and inventory and the appraised value of land and buildings. As at June 30, 2022, combined drawings under the operating loan facilities were \$25,905,387 (September 30, 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 0.75%. During the period ended June 30, 2022, the Company incurred interest expense of \$465,738 (June 30, 2021 - \$469,023) 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 \$17,500,000 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 June 30, 2022, the Company was in compliance with the covenants of its operating loan facilities.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 10. Mortgage loans

	June 30, 2022
	\$
Balance at September 30, 2021	9,847,003
Repayment of mortgage loans	(176,414)
Mortgage loans financing costs	(236)
Amortization of mortgage loans financing fees	4,782
Balance at June 30, 2022	9,675,135
Less: current portion of mortgage loans	278,746
Balance at June 30, 2022	9,396,389

  

	September 30, 2021
	\$
Balance at September 30, 2020	-
Proceeds from mortgage loans	10,000,000
Mortgage loans financing costs	(152,997)
Balance at September 30, 2021	9,847,003
Less: current portion of mortgage loans	245,035
Balance at September 30, 2021	9,601,968

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 beginning 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 beginning on November 1, 2021 over a 300 month term. During the period ended June 30, 2022, the Company recorded interest expense of \$273,023 (June 30, 2021 - \$nil) on borrowings under its BDC mortgage loans. As at June 30, 2022, the Company was in compliance with the covenants of its mortgage loan facilities.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 11. Long-term lease liabilities

	June 30, 2022
	\$
Balance at September 30, 2021	10,979,093
Leases added	-
Repayment of lease liabilities	(1,264,516)
Interest accretion	388,446
Effect of foreign exchange rates	8,776
Balance at June 30, 2022	10,111,799
Less: current portion of long-term lease liabilities	1,152,562
Balance at June 30, 2022	8,959,237

  

	September 30, 2021
	\$
Balance at September 30, 2020	8,867,429
Leases added	3,111,375
Repayment of lease liabilities	(1,635,720)
Interest accretion	667,208
Effect of foreign exchange rates	(31,199)
Balance at September 30, 2021	10,979,093
Less: current portion of long-term lease liabilities	1,067,147
Balance at September 30, 2021	9,911,946

During the period ended June 30, 2022, the Company accreted interest expense of \$388,446 (June 30, 2021 - \$388,356) on its long term lease liabilities.

### 12. Due to minority partner

As part of the acquisition of Peerless in 2010, the Company and the minority partner entered into a put/call agreement at a fixed price of \$1,500,000. The notice period is a minimum duration of one year plus one day for a triggering event under the triggering events of the put/call agreement. On April 9, 2020, the Company received notice from the minority partner of Peerless that the minority partner was exercising its put option to receive payment of \$1,500,000 from the Company for the minority partner's interest in Peerless by no later than April 10, 2021. On September 30, 2021, the minority partner agreed to defer payment of the put option until October 15, 2022.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 13. Capital stock

#### (a) Authorized

Unlimited number of the following classes of shares:

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

#### (b) Shares issued and fully paid

	Number of shares	
	Common shares	Amount
Balance, September 30, 2020	18,687,228	29,589,432
Shares issued on exercise of stock options (Note 13 (d))	300,000	800,317
Balance, September 30, 2021	18,987,228	30,389,749
Shares issued on exercise of stock options (Note 13 (d))	25,000	57,739
<b>Balance, June 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.

During the period ended June 30, 2022, 25,000 options were exercised (June 30, 2021 – 250,000) and 690,000 options were forfeited (June 30, 2021 – 255,000).

The following table summarizes stock options outstanding:

	nine months ended		nine months ended	
	June 30, 2022		June 30, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,740,000	2.13	1,045,000	2.48
Granted during the period	500,000	2.90	1,250,000	1.75
Exercised during the period	(25,000)	1.75	(250,000)	1.75
Forfeited during the period	(690,000)	2.56	(255,000)	2.04
Outstanding, end of period	1,525,000	2.20	1,790,000	2.14

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 13. Capital stock (c) Stock options continued

Based on the above vesting schedule, a stock option compensation expense of \$323,932 was recognized for the nine month period ended June 30, 2022 (June 30, 2021 - \$351,658) 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.

### 14. Income taxes

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate (see below) applicable to consolidated profits of the Company are as follows:

	three months ended June 30 2022	three months ended June 30 2021	nine months ended June 30 2022	nine months ended June 30 2021
	\$	\$	\$	\$
Income tax (recovery) expense	-	-	-	-
Deferred tax recovery	<b>(93,241)</b>	(360,675)	<b>(156,798)</b>	(330,545)
Income tax recovery	<b>(93,241)</b>	(360,675)	<b>(156,798)</b>	(330,545)

The tax on the Company's net income (loss) before tax differs from the amount that would arise using the weighted average tax rate applicable to consolidated profits of the Company as follows:

	three months ended June 30 2022	three months ended June 30 2021	nine months ended June 30 2022	nine months ended June 30 2021
	\$	\$	\$	\$
Net loss before income taxes	<b>(509,193)</b>	(1,401,125)	<b>(958,745)</b>	(1,392,600)
Tax rate	<b>26.2%</b>	26.4%	<b>26.2%</b>	26.7%
	<b>(133,409)</b>	(370,197)	<b>(251,191)</b>	(372,010)
Taxes attributable to minority partner	<b>(7,516)</b>	(14,930)	<b>(41,088)</b>	(57,177)
True-ups	<b>15,397</b>	(1,000)	<b>43,680</b>	-
Permanent differences	<b>32,287</b>	25,452	<b>91,801</b>	98,642
Income tax expense	<b>(93,241)</b>	(360,675)	<b>(156,798)</b>	(330,545)

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

	June 30, 2022	September 30, 2021
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	<b>4,289,498</b>	4,330,385
Deferred tax liabilities		
Property, plant and equipment	<b>(1,956,358)</b>	(2,154,043)
	<b>2,333,140</b>	2,176,342

The Company has non-capital losses of approximately \$13,500,000 (September 30, 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 \$3,645,000 (September 30, 2021 - \$4,012,200) that is included in the deferred tax asset balance at June 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 June 30, 2022.

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 15. Expenses by nature

	three months ended June 30 2022	three months ended June 30 2021	nine months ended June 30 2022	nine months ended June 30 2021
	\$	\$	\$	\$
<b>Direct expenses:</b>				
Materials	13,165,508	11,280,022	36,223,292	36,637,231
Wages and benefits	2,916,856	2,370,051	8,177,299	6,903,339
Delivery	1,559,516	710,265	4,282,919	2,437,186
Subcontract fees	770,915	1,203,202	3,554,033	3,140,994
Rent, utilities and other property costs	488,707	359,990	1,330,091	1,112,166
Insurance	949	43,809	2,618	44,289
Other	88,910	131,592	214,865	387,818
	<b>18,991,361</b>	<b>16,098,931</b>	<b>53,785,117</b>	<b>50,663,023</b>
<b>General and administrative expenses:</b>				
Wages and benefits	2,669,410	2,652,595	8,014,702	7,397,882
Data services, system maintenance, telecommunications and software licenses	675,689	690,333	2,021,902	1,842,143
Legal, bank, insurance and professional services	466,149	429,121	1,399,486	1,602,459
Advertising, marketing and other promotion costs	82,628	61,340	321,736	343,441
Rent, utilities and other property costs	105,291	123,685	328,721	332,445
Other	411,526	313,865	1,344,068	1,127,779
	<b>4,410,693</b>	<b>4,270,939</b>	<b>13,430,615</b>	<b>12,646,149</b>

### 16. Commitments and contingencies

- (a) At June 30, 2022, the Company had \$1,518,800 (September 30, 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 or recovery for these claims was recorded as of June 30, 2022 (September 30, 2021 - \$nil)

### 17. Economic dependence

During the nine month period ended June 30, 2022, revenue from the Canadian military and other Canadian governmental agencies accounted for 18% of total revenue (June 30, 2021 - 28%), revenue from two airline industry customers accounted for 12% and 11% of total revenue respectively (June 30, 2021 - 10% and 6%).

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 18. Segmented information

The Company has two reportable operating segments, Peerless and UGL. While both segments are involved in the distribution and manufacture of garments and uniforms and the sale of product to government agencies and corporate entities in Canada, Peerless is primarily engaged in manufacturing products for government agencies while UGL is primarily involved in distributing products to corporate entities. The segments are separately managed for reporting purposes.

Performance is measured based on segment income before income taxes, as included in the internal management reports reviewed by the Company's chief operating decision maker. Management has determined that this measure is the most relevant in evaluating segment results.

	three months ended			
				June 30
				2022
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	3,106,229	21,824,051	(301,785)	<b>24,628,495</b>
Direct expenses	2,472,683	16,820,463	(301,785)	<b>18,991,361</b>
General and administrative expenses	308,577	3,867,634	234,480	<b>4,410,691</b>
Depreciation and amortization	12,593	1,046,558	109,760	<b>1,168,911</b>
	312,376	89,396	(344,240)	<b>57,532</b>
Interest expense	26,930	425,971	-	<b>452,901</b>
Share based payment	-	-	113,824	<b>113,824</b>
Net loss before income taxes	285,446	(336,575)	(458,064)	<b>(509,193)</b>
Capital expenditures on property, plant and equipment	-	107,604	-	<b>107,604</b>
Capital expenditures on intangible assets	-	72,578	-	<b>72,578</b>

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 18. Segmented information (continued)

	nine months ended June 30 2022			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	12,516,668	58,830,949	(321,796)	<b>71,025,821</b>
Direct expenses	9,857,806	44,249,107	(321,796)	<b>53,785,117</b>
General and administrative expenses	985,397	11,452,258	992,960	<b>13,430,615</b>
Depreciation and amortization	37,779	2,950,636	329,280	<b>3,317,695</b>
	1,635,686	178,948	(1,322,240)	<b>492,394</b>
Interest expense	70,359	1,056,848	-	<b>1,127,207</b>
Share based payment	-	-	323,932	<b>323,932</b>
Net loss before income taxes	1,565,327	(877,900)	(1,646,172)	<b>(958,745)</b>
Capital expenditures on property, plant and equipment	4,350	208,535	-	<b>212,885</b>
Capital expenditures on intangible assets	-	420,363	-	<b>420,363</b>
Total assets	11,041,344	72,586,156	14,002,974	<b>97,630,474</b>
Property, plant and equipment	875,254	4,207,875	3,417,599	<b>8,500,728</b>
Right of use assets	-	8,292,389	-	<b>8,292,389</b>
Intangible assets	-	4,984,717	2,515,584	<b>7,500,301</b>
Goodwill	-	1,221,695	5,163,102	<b>6,384,797</b>
Liabilities, excluding due to minority partner	6,678,431	60,353,943	360,237	<b>67,392,611</b>

  

	three months ended June 30 2021			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	4,314,245	16,342,141	(1,984)	20,654,402
Direct expenses	3,317,291	12,783,624	(1,984)	16,098,931
General and administrative expenses	351,019	3,616,439	303,481	4,270,939
Depreciation and amortization	17,846	988,958	107,084	1,113,888
	628,089	(1,046,880)	(410,565)	(829,356)
Interest expense	30,069	294,654	158,994	483,717
Share based payment	-	-	88,052	88,052
Net loss before income taxes	598,020	(1,341,534)	(657,611)	(1,401,125)
Capital expenditures on property, plant and equipment	-	62,017	-	62,017
Capital expenditures on intangible assets	-	323,781	-	323,781

# Unisync Corp.

## Notes to the condensed interim consolidated financial statements

June 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

### 18. Segmented information (continued)

	nine months ended June 30 2021			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	15,024,804	52,920,897	(1,078,058)	66,867,643
Direct expenses	11,722,931	40,018,150	(1,078,058)	50,663,023
General and administrative expenses	1,007,853	10,675,891	962,405	12,646,149
Depreciation and amortization	52,301	2,700,905	322,490	3,075,696
	2,241,719	(474,049)	(1,284,895)	482,775
Interest expense	69,631	899,543	564,543	1,533,717
Share based payment	-	-	351,658	351,658
Net loss before income taxes	2,172,088	(1,373,592)	(2,201,096)	(1,402,600)
Capital expenditures on property, plant and equipment	25,602	397,087	-	422,689
Capital expenditures on intangible assets	-	803,695	-	803,695
Total assets	7,835,267	60,134,230	13,449,967	81,419,464
Property, plant and equipment	927,770	4,477,176	3,448,064	8,853,010
Right of use assets	-	6,582,459	-	6,582,459
Intangible assets	-	5,910,791	2,918,077	8,828,868
Goodwill	-	1,221,695	5,163,102	6,384,797
Liabilities, excluding due to minority partner	3,172,902	41,949,241	4,135,271	49,257,414