

UNISYNC CORP.

**Management Discussion and Analysis
For the three month period ended June 30, 2023**

Prepared as at August 10, 2023

UNISYNC CORP.

**MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three months ended June 30, 2023**

BACKGROUND

The following discussion and analysis, prepared as of August 10, 2023, should be read together with the audited consolidated financial statements and the accompanying notes for the year ended September 30, 2022 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three month period ended June 30, 2023 prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, and actual results could vary considerably from these statements (see section headed "Forward-Looking Information"). Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to Unisync Corp. is available for view on SEDAR at www.sedar.com.

DESCRIPTION OF BUSINESS

Unisync Corp. is a British Columbia corporation and reporting issuer in British Columbia, Alberta, Manitoba and Ontario. Unisync's voting Common Shares are listed and posted for trading on the TSX Exchange under the symbol "UNI" and on the OTC market under the symbol "USYNF". Unisync Corp. and its subsidiaries are hereinafter referred to collectively as "Unisync" or the "Company".

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

Unisync operates through two business segments: Peerless Garments LP ("Peerless") of Winnipeg, Manitoba and Unisync Group Limited ("UGL") of Mississauga, Ontario. Peerless specializes in the production and distribution of highly technical protective garments, military operational clothing and accessories for a broad spectrum of Federal, Provincial and Municipal government departments and agencies. UGL is a leading customer-focused provider of corporate apparel, serving a list of leading iconic brands such as Air Canada, Alaska Airlines, Purolator, Canadian Coast Guard, Shoppers Drug Mart, Sobeys, Tim Hortons and WestJet.

UGL has a broad base of operations across Canada with four distribution and service facilities encompassing a total of 245,000 square feet which provide a unique capability to effectively service national and Quebec based customers. UGL's United States subsidiary, Unisync (Nevada) LLC ("UNV"), operates a 45,000 square foot distribution and service facility in Henderson, Nevada, as a base to distribute uniforms to its US clients and to develop new business in the US corporate apparel market.

Business Strategy

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

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

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RESULTS OF OPERATIONS

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

Fiscal years ended	September 30, 2022	September 30, 2021	September 30, 2020
Consolidated statement of net income (loss) data:			
Revenue	96,306,766	86,285,179	93,103,296
Direct expenses	72,767,010	66,678,240	72,247,767
General and administrative expenses	18,620,663	16,471,300	16,372,961
Depreciation and amortization	4,024,002	3,810,190	3,256,373
Interest expense	1,733,002	2,182,737	2,570,970
Share-based payment	407,961	424,596	79,232
Net income (loss) before income taxes	(1,245,872)	(3,281,884)	(1,424,007)
Income tax expense (recovery)	102,356	(705,316)	(419,200)
Net income (loss)	(1,348,228)	(2,576,568)	(1,004,807)
Attributable to Unisync Corp. shareholders	(1,544,711)	(2,829,887)	(1,264,116)
Attributable to minority partner	196,483	253,319	259,309
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	(0.08)	(0.15)	(0.07)
Diluted	(0.08)	(0.15)	(0.07)
Supplemental data:			
Gross profit (1)	19,515,754	15,796,749	17,599,156
Gross profit as a % of revenue	20.3%	18.3%	18.9%
Adjusted EBITDA (2)	4,919,093	3,135,639	4,482,568
Adjusted EBITDA as a % of revenue	5.1%	3.6%	4.8%
Consolidated statement of financial position data:			
Working capital, excluding shareholder advances, minority interest and current portion of long-term liabilities	17,094,728	16,002,496	17,955,382
Total assets	104,363,765	88,019,763	87,161,314
Other liabilities:			
Mortgage loans	9,608,228	9,847,003	-
Term loans	-	-	5,824,798
Long-term lease liabilities	9,934,987	10,979,093	8,867,429
Shareholder advances	-	-	4,488,981
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	28,363,348	29,373,598	31,202,022
Shareholder's equity - attributable to minority partner	(65,978)	(82,239)	(30,137)
<p>(1) Gross profit is calculated by the Company as revenue less direct expenses, less depreciation and amortization.</p> <p>(2) Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment impairment losses, gain/losses on divestitures and acquisition costs) is a non-GAAP financial measure. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company has presented the nonGAAP measure of EBITDA because it believes that EBITDA is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.</p>			

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Summary of Quarterly Results

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

	09/30/2021	12/31/2021	03/31/2022	06/30/2022	09/30/2022	12/31/2022	03/31/2023	06/30/2023
Revenue	19,417	21,835	24,562	24,629	25,281	28,872	28,655	25,361
Direct expenses	16,015	16,439	18,355	18,991	18,982	22,429	23,289	22,210
Depreciation & amortization	734	1,035	1,114	1,169	706	1,110	1,232	1,277
General & administrative	3,825	4,154	4,866	4,411	5,190	4,372	4,287	4,001
Interest expense	659	279	395	453	606	671	853	835
Share based payment	73	58	152	114	84	-	-	-
(Gain)/loss on sale of New Jersey division	-	-	-	-	-	(423)	99	(1)
Net income (loss) before income taxes	(1,889)	(130)	(320)	(509)	(287)	713	(1,105)	(2,961)
Income tax expense (recovery)	(374)	(29)	(35)	(93)	259	201	(277)	(771)
Net income (loss)	(1,515)	(101)	(285)	(416)	(546)	512	(828)	(2,190)
Net income (loss) attributable to Unisync shareholders	(1,550)	(172)	(342)	(445)	(586)	508	(861)	(2,222)
Income (loss) attributable to minority partner	35	71	57	29	40	4	33	32
Basic income (loss) per share	(0.08)	(0.01)	(0.02)	(0.02)	(0.03)	0.03	(0.05)	(0.12)
Diluted income (loss) per share	(0.08)	(0.01)	(0.02)	(0.02)	(0.03)	0.03	(0.05)	(0.12)
Supplemental data:								
Gross profit (1)	2,668	4,361	5,093	4,469	5,593	5,333	4,134	1,874
Gross profit %	13.7%	20.0%	20.7%	18.1%	22.1%	18.5%	14.4%	7.4%
Adjusted EBITDA (2)	(422)	1,242	1,341	1,226	1,109	2,070	1,079	(850)
Adjusted EBITDA %	(2.2%)	5.7%	5.5%	5.0%	4.3%	7.2%	3.8%	(3.4%)

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

(2) Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, share-based payment, impairment losses, gain/losses on divestitures and acquisition costs) is a non-GAAP financial measure. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company has presented the nonGAAP measure of EBITDA because it believes that EBITDA is a widely accepted financial indicator of an entity's ability to incur and service debt and it is used by the investing community to value businesses.

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Results for the quarter ended June 30, 2023 versus the quarter ended June 30, 2022

Revenue for the three months ended June 30, 2023 of \$25.4 million rose by \$0.7 million or 3% from the three months ended June 30, 2022 due to a \$0.9 million revenue improvement in the UGL segment less a \$0.4 million revenue decrease in the Peerless segment and less a \$0.2 million decrease in intersegment revenue eliminations. UGL segment revenue of \$22.7 million increased by 4% over the same period in the prior year on an improvement in sales to the segment's airline accounts. The increase in sales to the Company's airline accounts was caused by the continued post pandemic rebound in the airline industry where staffing levels have surged above pre-pandemic levels. The revenue decrease in the Peerless segment in the current quarter was due to lower uniform product sales to the Department of National Defence ("DND") on account of delays in the receipt of key fabric and the exercise of contract options by the DND.

Gross profit for the three months ended June 30, 2023 of \$1.9 million was down \$2.6 million from the third quarter of fiscal 2022 and the gross profit margin declined to 7.4% of revenue from 18.1%. The UGL segment experienced a decline in gross profit to \$1.3 million or 6% of segment revenue compared to \$3.9 million or 18% of segment revenue in the same quarter in the prior year because of a \$1.8 million revaluation of the weighted average cost of inventory in the current period to adjust for the sharp drop in offshore container delivery costs since the peak experienced in June 2022, the absorption of higher outbound courier costs to deliver product to customers and costs associated with the startup of the new Guelph satellite 40,000 sq. ft. distribution facility which opened in July.

The Peerless segment recorded gross profit segment of \$0.6 million or 23% of segment revenue against \$0.6 million or 20% of segment revenue in the same quarter of the prior fiscal year as the higher margin mix of product sales offset the reduced absorption of fixed costs on the lower volume of sales in the current period.

At \$4.0 million, total general and administrative expenses for the three months ended June 30, 2023 were down \$0.4 million or 9% from the three months ended June 30, 2022 on a reduction in senior management and customer service staff levels from the same period in the prior period.

Interest expense of \$0.8 million in the current quarter was up \$0.4 million from the same quarter of fiscal 2022 due to higher interest costs combined with the need for greater short-term borrowings to finance the growth in inventory and receivable levels.

The Company reported a net loss before tax of \$3.0 million in the quarter compared to a net loss of \$0.5 million in the same quarter last year. Adjusted EBITDA, before the \$1.8 million non-cash inventory revaluation in the quarter, was \$1.0 million versus \$1.2 million for the corresponding 3 month period last year.

Business Outlook

The Company's North American airline accounts continue to experience strong demand and have returned to pre-pandemic passenger volumes. The Company expects that this will continue to result in strong uniform sales to its airline accounts throughout fiscal 2023. The flow of offshore ocean shipments continues to improve, and the costs of container shipments are starting to stabilize at pre-pandemic levels following the inflated levels experienced during the pandemic. New product orders are at an all-time high as evidenced by the increase in deferred revenue to \$21.3 million at June 30, 2023 compared to \$16.7 million as at September 30, 2022 and \$5.0 million as at September 30, 2021. Approximately 60% of the deferred revenue at the end of Q3 2023 represents deposits on custom garment production in process, with the balance representing customer deposits at full selling prices covering slow moving inventory awaiting a disposition decision. The Company believes that these trends will allow the Company to continue to reduce its order delivery backlog and to right-size the quantity of uniform products held in its distribution centres over the balance of fiscal year.

UGL management continues to place strong focus on the US market and is in advanced discussions with a number of major corporations with respect to their image wear programs totalling close to US\$100 million annually in potential new business. Additionally, UGL has been added as an approved supplier to an extensive list of major customers that are also scheduled to come to market during the 2023 calendar year.

With \$12 million in firm contracts and options on hand as at June 30, 2023, the Peerless business segment is positioned to maintain its current level of revenues and profitability over the balance of fiscal 2023.

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At June 30, 2023, Unisync holds two operating loan facilities totalling \$24.0 million with a Canadian chartered bank and an operating loan facility of USD5.0 million with the United States affiliate of the Canadian chartered bank to finance its working capital requirements. The maximum amount available under the facilities is based on certain margin requirements and covenants as stipulated in the loan facility agreements as described in accompanying notes 11 and 22 to the audited consolidated financial statements for the years ended September 30, 2022 and September 30, 2021.

The Company has two mortgage loan facilities with the Business Development Bank of Canada (“BDC”) with amounts of \$3.6 million (the “Peerless” mortgage loan) and \$5.8 million (the “Utility” mortgage loan) outstanding at June 30, 2023 on the properties having appraised values of \$5.7 million and \$7.2 million, respectively. The BDC mortgage loans were used to repay outstanding balances under the previously existing term loan facilities and to repay the postponed shareholder advances and accrued interest, processing and extension fees thereon. 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 \$0.023 million 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 \$0.033 million that began on November 1, 2021 over a 300 month term.

The Company received shareholder advances of \$2,000,000 in November 2022. The advances bear interest at 12% per annum, calculated monthly in arrears and payable quarterly in arrears. The advances are also subject to processing fees of 1.5% for each quarterly period that the advances are outstanding and payable quarterly when the accrued interest is paid. The advances are due at the earlier of November 28, 2023, or upon 60 days’ notice of demand by a majority of the shareholder lenders.

Excluding the current portions of the mortgage loan and long-term lease facilities, shareholder advances and amounts due to its minority interest partner, Unisync had working capital of \$17.6 million and \$17.1 million at June 30, 2023 and September 30, 2022, respectively. As at June 30, 2023, the Company had outstanding foreign exchange contracts of \$nil (September 31, 2022 - \$nil) and letters of credit of \$1.5 million (September 30, 2022 - \$1.5 million) in support of government contracts along with operating loans outstanding of \$27.8 million (September 30, 2022 - \$25.7 million) under its three operating loan facilities. As the Company grows its US customer base, its US dollar revenues are expected to increase, creating a natural hedge against its US dollar offshore purchases and thereby reducing the Company’s exposure to changes in the Canadian/US dollar exchange rate.

Cash flow from operations of negative \$0.8 million, \$0.7 million of mortgage loan and long-term lease facilities principal payments, interest payments on all debt facilities of \$0.6 million and capital expenditures of \$0.1 million. were funded by a \$0.6 million decrease in working capital and a \$1.6 million increase in operating loan borrowings during the quarter. With the completion of the implementation of the Company’s new ERP system, capital expenditures were minimal. The Company expects to fund capital expenditures of \$0.4 million associated with the opening of a new Guelph Ontario satellite distribution centre during the fourth quarter of the fiscal year through cash flow from operations.

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SHARE CAPITAL**

The following table sets out the share capitalization of the Company as at June 30, 2023 and the date of this MD&A.

Description	Authorized	Outstanding as at June 30, 2023	Outstanding as at the date of this MD&A
Common Shares	Unlimited	19,012,228	19,012,228
Stock Options – Common Shares	1,901,223	1,735,000	1,735,000
Class A Preferred Shares	Unlimited in series	Nil	Nil

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than letters of credit granted in the ordinary course as set out in the Section headed “Liquidity”.

CRITICAL ACCOUNTING ESTIMATES

Measurement Uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas of estimates and judgments are listed in Note 3 to the consolidated financial statements and include but are not limited to the inventory recognition of deferred income taxes, costing allocations of labour and overhead for inventories, the estimated useful lives of property, plant and equipment, recording of accrued liabilities and contingencies, due to minority partner, valuation of investments, valuation of receivables and inventory obsolescence, valuation of goodwill and share based payments and the allocation of purchase consideration on the acquisition of businesses. Actual results could differ from these estimates.

CHANGE IN ACCOUNTING POLICIES

Accounting standards issued but not yet applied.

None.

FORWARD-LOOKING INFORMATION

This Management Discussion and Analysis contains forward-looking information. Specific forward-looking statements included or incorporated by reference in this document include, but are not limited to, statements with respect to:

- that with the passing of the COVID-19 pandemic, the Company expects this will continue to cause a strong increase in uniform sales to its airline accounts and when complimented by recent new account additions, will result in an improving revenue and profitability picture and that supply chain delays will be rectified as outlined in the Business Outlook section.
- that as the Company grows its US customer base, its US dollar revenues are expected to increase, creating a natural hedge against its US dollar offshore purchases and thereby reducing the Company’s exposure to changes in the Canadian/US dollar exchange rate as outlined in the Liquidity section;

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For the three months ended June 30, 2023

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

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

RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2023, interest and processing fees of \$75,540 were accrued on \$1,250,000 of shareholder advances that were provided by Bruce Auger, Darryl Eddy, Douglas Good, Tim Gu and Michael O'Brian (June 30, 2022 - nil).

Darryl Eddy and Joel Mclean, members of the Company's board of directors, are also board members of a company to which the Company paid rent of \$7,317 (June 30, 2022 - \$7,317) for its head office location.

The Company expensed \$nil in share-based payment to Bruce Auger, Darryl Eddy, Tim Gu, Joel McLean, Michael O'Brian and Scott Shepherd, non-salaried members of the Company's board of directors (June 30, 2022 - \$12,042).

Albert El Tassi, the Company's minority partner in the Peerless segment received an income allocation of \$31,759 (June 30, 2022 - \$28,544).

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

SUBSEQUENT EVENTS

Following an updated appraisal of the Company's land and buildings in Saint-Laurent, Quebec, the BDC agreed to increase the Utility mortgage loan by \$7,450,000. This additional loan shall be payable by way of monthly blended instalments of principal and interest of \$51,708 commencing on August 1, 2024 for a term of 25 years at a fixed interest rate of 6.7% for the first five years. Registration of security for this mortgage loan increase is expected to be completed in August. Proceeds from this financing will be used to repay the shareholder advances and to reduce operating loan drawings.

INVESTOR RELATIONS

Investor relations inquiries are handled by the Company's Chief Executive Officer.

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