



**UNISYNC CORP.
MANAGEMENT DISCUSSION AND ANALYSIS**

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2024

Unisync Corp.
Management's Discussion and Analysis
For the Three Months Ended June 30, 2024

BACKGROUND

The following discussion and analysis, prepared as of August 13, 2024, should be read together with the audited consolidated financial statements and the accompanying notes for the year ended September 30, 2023 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three month period ended June 30, 2024 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 North American corporate and government 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 Year ended September 30	2023	2022	2021
Consolidated statement of net loss data:			
Revenue	\$ 103,599,811	\$ 96,306,766	\$ 86,285,179
Direct expenses	90,730,003	72,767,010	66,678,240
General and administrative expenses	16,357,416	18,620,663	16,471,300
Depreciation and amortization	4,871,806	4,024,002	3,810,190
Interest expense	3,487,042	1,733,002	2,182,737
Restructuring expense	933,927	-	-
Gain on sale of New Jersey division	(334,602)	-	-
Share-based payment	-	407,961	424,596
Net loss before income taxes	(12,445,781)	(1,245,872)	(3,281,884)
Income tax expense (recovery)	(3,261,614)	102,356	(705,316)
Net loss	(9,184,167)	(1,348,228)	(2,576,568)
Attributable to Unisync Corp. shareholders	(9,262,244)	(1,544,711)	(2,829,887)
Attributable to minority partner	78,077	196,483	253,319
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	(0.49)	(0.08)	(0.15)
Diluted	(0.49)	(0.08)	(0.15)
Supplemental data:			
Gross profit (1)	7,998,002	19,515,754	15,796,749
Gross profit as a % of revenue	7.7%	20.3%	18.3%
Adjusted EBITDA (2)	(4,872,372)	4,919,093	3,135,639
Adjusted EBITDA as a % of revenue	-4.7%	5.1%	3.6%
Consolidated statement of financial position data:			
Working capital, excluding shareholder advances, minority interest and current portion of long-term liabilities	13,974,044	17,094,728	16,002,496
Total assets	109,420,771	104,363,765	88,019,763
Other liabilities:			
Mortgage loans	16,683,772	9,608,228	9,847,003
Long-term lease liabilities	16,453,942	9,934,987	10,979,093
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	19,126,228	28,363,348	29,373,598
Shareholder's equity - attributable to minority partner	(110,419)	(65,978)	(82,239)

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

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

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Summary of Quarterly Results

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

	9/30/2022	12/31/2022	3/31/2023	6/30/2023	9/30/2023	12/31/2023	3/31/2024	6/30/2024
Revenue	25,281	28,872	28,655	25,361	20,711	22,968	25,683	21,194
Direct expenses	18,982	22,429	23,289	22,210	22,801	18,077	19,200	16,780
Depreciation & amortization	706	1,110	1,232	1,277	1,253	1,380	1,308	1,321
General & administrative	5,190	4,372	4,287	4,001	3,697	3,686	3,688	3,323
Interest expense	606	671	853	835	1,128	898	877	1,002
Restructuring expense	-	-	-	-	934	-	-	-
(Gain)/loss on sale of New Jersey division	-	(423)	99	(1)	(10)	-	-	-
Share based payment	84	-	-	-	-	-	-	-
Net income (loss) before income taxes	(287)	713	(1,105)	(2,961)	(9,092)	(1,073)	610	(1,232)
Income tax expense (recovery)	259	201	(277)	(771)	(2,415)	(270)	160	(320)
Net income (loss)	(546)	512	(828)	(2,190)	(6,677)	(803)	450	(912)
Net income (loss) attributable to Unisync shareholders	(586)	508	(861)	(2,222)	(6,686)	(813)	390	(971)
Income (loss) attributable to minority partner	40	4	33	32	9	10	60	60
Basic income (loss) per share	(0.03)	0.03	(0.05)	(0.12)	(0.35)	(0.04)	0.02	(0.05)
Diluted income (loss) per share	(0.03)	0.03	(0.05)	(0.12)	(0.35)	(0.04)	0.02	(0.05)
Supplemental data:								
Gross profit (1)	5,593	5,333	4,134	1,874	(3,343)	3,510	5,175	3,093
Gross profit %	22.10%	18.50%	14.40%	7.40%	-16.10%	15.30%	20.10%	14.59%
Adjusted EBITDA (2)	1,109	2,070	1,079	(850)	(5,787)	1,205	2,795	1,091
	4.30%	7.20%	3.80%	-3.40%	-27.90%	5.20%	10.90%	5.15%

(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, restructuring expenses 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 non GAAP 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, 2024 versus the quarter ended June 30, 2023

Consolidated revenue for the three months ended June 30, 2024 of \$21.2 million was down \$4.2 million or 16.5% from the three months ended June 30, 2023. UGL segment revenue of \$18.1 million in the current quarter was off \$4.6 million or 20.2%, Peerless segment revenue was higher by \$0.5 million, and the elimination of intersegment sales were relatively unchanged compared to the same quarter last year.

UGL revenues returned to more normal seasonal levels in the current quarter following the post pandemic rebound in airline industry accounts during the same period in 2023 when staffing levels surged above pre-pandemic levels. Despite this lower level of revenues, the UGL segment experienced a \$1.0 million increase in gross profit to \$2.3 million or 12.6% of segment revenue compared to \$1.3 million or 5.9% of segment revenue in the same three month period in the prior year. The improved margins were related to pricing adjustments combined with the impact of lower offshore container delivery costs on the weighted average cost of product sold. In addition, the consolidation of the Carleton Place, Ontario and the Saint-Laurent, Quebec facilities into the more efficient Guelph and Mississauga, Ontario facilities along with the discontinued use of 3PL services reduced fixed overhead costs and staffing levels.

The Peerless segment experienced an increase in revenue of \$0.5 million compared to the same quarter last year and recorded gross profit of \$0.9 million or 28.6% of segment revenue against \$0.7 million or 23.7% of segment revenue on a higher margin mix of product sales while discontinuing the cost of using subcontractors to perform a portion of manufacturing output.

At \$3.3 million, consolidated general and administrative expenses were down \$0.7 million or 17.0% from the three months ended June 30, 2023 due to overhead reductions associated with the consolidation of the Carleton Place, Ontario and the Saint-Laurent, Quebec operations. Third quarter consolidated general and administrative expenses included employee severances of \$0.1 million related to the consolidation of the Carleton Place, Ontario and the Saint-Laurent, Quebec facilities.

Interest expense of \$1.0 million in the current quarter was higher from the same quarter of fiscal 2023 due to an increase in average debt outstanding, which was partially offset by lower borrowing costs with the August 2023 BDC mortgage loan financing that replaced previously availed high interest rate shareholder loans.

The Company reported a net loss before tax of \$1.2 million in the quarter compared to a loss of \$2.9 million in the same quarter last year. Adjusted EBITDA in the current quarter was \$1.1 million versus a loss of \$0.9 million for the corresponding 3-month period last year.

Business Outlook

During the third quarter of fiscal 2024, the Company continued to benefit from positive contract pricing adjustments. In order to better serve existing clientele and new customers, the company has been relocating offshore production from a number of factories with higher labour costs and that were import duty subject, to those that offer lower labour costs and/or are duty-free. We expect that these initiatives to positively impact future margins for UGL as these reduced input costs get reflected in the weighted average cost of inventory. In addition, the UGL segment continues to pursue additional headcount reductions and operational efficiencies that will result in lower future Direct and Administrative costs going forward.

We continue to also aggressively pursue a tenant to lease out the resulting 40,000+ square feet of vacated space at its Saint-Laurent facility or an outright sale of the 60,000 square foot facility which, in either case, will materially reduce UGL's direct overhead costs.

UGL management continues to actively pursue a number of material business opportunities that are coming to market in both the Canadian and US marketplace during the 2024 calendar year.

With \$36 million in firm contracts and options on hand as at June 30, 2024, the Peerless business segment is positioned to maintain its current level of revenues and profitability over the balance of fiscal 2024 and into fiscal 2025, although production levels continue to fluctuate due to delays being experienced in the release of production schedules by the Department of National Defense.

LIQUIDITY

At June 30, 2024, Unisync holds two operating loan facilities totalling \$24.0 million with a Canadian chartered bank and an operating loan facility of US\$5.0 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 25 to the audited consolidated financial statements for the years ended September 30, 2023 and September 30, 2022.

The Company has three mortgage loan facilities with the Business Development Bank of Canada ("BDC") with amounts of \$3.5 million (the "Peerless" mortgage loan on the Winnipeg, Manitoba property) and amounts of \$5.7 million and \$7.4 million (the "Utility" mortgage loans on the Saint-Laurent, Quebec property) outstanding at June 30, 2024 on the properties having appraised values of \$5.7 million and \$15.7 million, respectively. 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 first 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. Advances under the Peerless and the first Utility mortgage loan bear interest at a fixed rate of 4.10% until May 1, 2026 following which the interest rate will be adjusted to the BDC's fixed rate then in effect. The second Utility mortgage loan is repayable in blended monthly 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, following which the interest rate will be adjusted to the BDC's fixed rate then in effect. The Company was in compliance with the financial covenants of its operating loan facilities and its mortgage loan facilities as at June 30, 2024.

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 \$14.8 million at June 30, 2024 (September 30, 2023 - \$14.0 million). As at June 30, 2024, the Company had outstanding foreign exchange contracts of \$nil (September 30, 2023 - \$nil) and letters of credit of \$1.5 million (September 30, 2023 - \$1.5 million) in support of government contracts along with operating loans outstanding of \$24.1 million (September 30, 2023 - \$26.1 million) under its three operating loan facilities. As the Company grows its US customer base, its US dollar revenues are expected to increase, creating a natural hedge against its US dollar offshore purchases and thereby reducing the Company's exposure to changes in the Canadian/US dollar exchange rate.

Cash flow from operations of \$1.5 million and an increase in the operating loan of \$0.3 million was used to fund \$0.7 million of mortgage loan and long-term lease facilities principal payments, and interest payments on all debt facilities of \$0.8 million.

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SHARE CAPITAL

The following table sets out the share capitalization of the Company as at June 30, 2024 and the date of this MD&A.

Description	Authorized	Outstanding as at June 30, 2024	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	1,530,000	1,530,000
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.

CHANGE IN ACCOUNTING POLICIES

Accounting standards issued but not yet applied.

The reader is referred to Note 4 to the consolidated financial statements for the year ended September 30, 2023, for a summary of new standards which will be effective for future years. The Company is in the process of assessing the impact of these new standards.

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 the Company's profitability will improve as a result of increased contract pricing, headcount reductions and operational efficiencies, the relocation of its offshore production from higher labour cost manufacturers and duty subject jurisdictions and the consolidation of the UGL segment's distribution operations at its main Guelph distribution facilities 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.

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 achievement 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

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, 2023 - \$7,317) for its head office location.

Albert El Tassi, the Company's minority partner in the Peerless segment received an income allocation of \$60,012 (June 30, 2023 - \$31,759).

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

SUBSEQUENT EVENTS

None.

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.