UNISYNC CORP.

Management Discussion and Analysis
For the three month period ended December 31, 2019

Prepared as at February 10, 2020

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three months ended December 31, 2019

BACKGROUND

The following discussion and analysis, prepared as of February 10, 2020, should be read together with the audited consolidated financial statements and the accompanying notes for the years ended September 30, 2019 and the unaudited condensed interim consolidated financial statements and accompanying notes for the three month period ended December 31, 2019 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 (since graduating from the TSXV on January 14, 2019) under the symbol "UNI". Unisync Corp. and its subsidiaries are hereinafter referred to collectively as "Unisync" or the "Company".

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

In October 2018, Unisync acquired Utility Garments Inc. ("Utility") of Saint-Laurent, Quebec and in January 2019, the hospitality division assets of Red the Uniform Tailor ("RTUT") of Lakewood, New Jersey (since re-located to Farmingdale, New Jersey). Utility is a designer, manufacturer and distributor of uniforms and career apparel to customers in Quebec and to national accounts across Canada. RTUT is a designer, manufacturer and distributor of uniforms and related apparel to hospitality industry customers in the United States. In early 2019 UGL opened a new 45,000 square foot distribution and service facility in Henderson, Nevada, which is in the process of distributing new uniforms to the approximately 19,000 employees of Alaska Airlines.

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

Business Strategy

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

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

RESULTS OF OPERATIONS

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

Fiscal years ended	**September 30, 2019**	**September 30, 2018**	**September 30, 2017**
Consolidated statement of net income (loss) data:			
Revenue	77,992,964	76,835,677	65,572,476
Direct expenses	63,817,276	58,214,844	53,947,042
General and administrative expenses	15,813,328	8,721,352	8,100,386
Depreciation and amortization	1,722,679	949,595	867,626
Interest expense	1,510,950	993,682	952,688
Share-based payment	437,134	341,275	272,104
Net income (loss) before income taxes	(5,308,403)	7,614,929	1,432,630
Income tax expense (recovery)	(1,303,515)	377,335	358,897
Net income (loss)	(4,004,888)	7,237,594	1,073,733
Attributable to Unisync Corp. shareholders	(4,080,141)	7,073,490	689,022
Attributable to minority partner	75,253	164,104	384,711
Net income (loss) per share attributable to Unisync Corp. shareholders:			
Basic	(0.23)	0.53	0.05
Diluted	(0.23)	0.52	0.05
Supplemental data:			
Gross profit (1)	12,453,009	17,671,238	10,757,808
Gross profit as a % of revenue	16.0%	23.0%	16.4%
Adjusted EBITDA (2)	(251,343)	9,899,481	3,525,048
Adjusted EBITDA as a % of revenue	-0.3%	12.9%	5.4%
Consolidated statement of financial position data:			
Working capital, excluding restricted cash, shareholder advances and term loan	14,292,805	11,145,009	7,743,241
Total assets	84,991,792	50,432,602	59,376,808
Other liabilities:			
Term loans	6,670,398	1,567,294	2,682,500
Shareholder advances	1,836,800	-	2,928,001
Deferred tax liabilities	2,054,785	695,148	723,910
Due to minority partner	1,500,000	1,500,000	1,500,000
Shareholder's equity - attributable to Unisync Corp.	29,986,685	29,128,167	11,464,787
Shareholder's equity - attributable to minority partner	(53,728)	(41,427)	(10,695)

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

Summary of Quarterly Results

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

	03/31/2018	06/30/2018	09/30/2018	12/31/2018	03/31/2019	06/30/2019	09/30/2019	12/31/2019
Revenue	36,373	15,017	11,817	16,946	19,073	21,587	20,387	27,076
Direct expenses	24,603	11,870	10,820	13,885	16,054	18,176	15,702	20,714
Depreciation & amortization	228	236	254	443	505	494	281	826
General & administrative	2,313	2,062	2,223	3,445	3,873	4,569	3,926	4,602
Interest expense	297	277	159	328	370	324	489	667
Share based payment	86	79	64	56	48	133	200	79
Net income (loss) before income taxes	8,846	492	(1,703)	(1,211)	(1,777)	(2,109)	(211)	188
Income tax expense (recovery)	2,329	(1,526)	(440)	(300)	(453)	(541)	(9)	99
Net income (loss)	6,517	2,018	(1,263)	(911)	(1,324)	(1,568)	(202)	89
Net income (loss) attributable to Unisync shareholders	6,449	1,991	(1,287)	(892)	(1,338)	(1,629)	(221)	67
Income (loss) attributable to minority partner	68	27	24	(19)	14	61	19	22
Basic income (loss) per share	0.48	0.15	(0.09)	(0.05)	(0.08)	(0.09)	(0.01)	0.00
Diluted income (loss) per share	0.48	0.15	(0.10)	(0.05)	(0.08)	(0.09)	(0.01)	0.00
Supplemental data:								
Gross profit (1)	11,542	2,910	743	2,618	2,514	2,917	4,404	5,536
Gross profit %	31.7%	19.3%	6.3%	15.4%	13.2%	13.5%	21.6%	20.4%
Adjusted EBITDA (2)	9,457	1,085	(1,227)	323	(405)	(927)	758	1,761
Adjusted EBITDA %	26.0%	7.2%	(10.4%)	1.9%	(2.1%)	(4.3%)	3.7%	6.5%

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

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

Results for the quarter ended December 31, 2019 versus the quarter ended December 31, 2018

Revenue for the three months ended December 31, 2019 of $27.1 million increased by $10.1 million or 60% over the three months ended December 31, 2018 on a $7.1 million revenue increase in the UGL segment and a $3.0 million revenue improvement in the Peerless segment. First quarter 2020 UGL segment revenue of $22.5 million increased by 47% over the same period in the prior year with the addition of $7.1 million in US market sales that included $6.0 million in revenue from the ongoing new uniform rollout to the segment's second largest airline account. The increase in the Peerless segment in the current quarter compares to a poor first quarter last year when results were negatively effected by a delay in the release of new contracts and in the exercise of outstanding options on existing contracts by the Department of National Defence ("DND"), the segment's largest customer.

With the increase in sales experienced in both segments, gross profit for the three months ended December 31, 2019 of $5.5 million or 20% of revenue was up from $2.6 million or 15% of revenue during the three months ended December 31, 2018. The UGL segment recorded gross profit of $5.0 million or 23% of segment revenue compared to $2.9 million or 19% of segment revenue in the same quarter of the prior fiscal year. The Peerless segment recorded gross profit of $0.6 million or 13% of segment revenue in the first quarter of fiscal 2020 against $0.2 million or 12% of segment revenue in the same quarter of the prior fiscal year. Gross profit was impacted in the prior year by a fair value consolidation adjustment of $0.5 million to direct expenses for inventory acquired in the Utility purchase.

At $4.6 million, total general and administrative expenses for the three months ended December 31, 2019 were up $1.2 million or 34% from the three months ended December 31, 2018 due to the new US locations opened in New Jersey and Nevada ($0.5 million) and an increase of $0.9 million in the existing operations of the UGL segment, partially offset by a $0.2 million decrease in corporate administrative expenses while the Peerless segment's administrative expenses were unchanged. General and administrative expenses rose in the UGL segment due to additional sales and customer service staffing, redundant online ordering support and programing costs with the transition to a new vendor, professional fees related to the successful completion of the segment's first SOC II audit over its data security and the costs associated with the Company's Operational Clothing and Footwear Contract ("OCFC2") bid. The OCFC2 contract involves the DND's plans to outsource the procurement, warehousing and distribution of operational clothing, footwear, and personal equipment under one contract. The contract is expected to include provisions for the development of a direct delivery system between the contractor and the individual military member for select items; and include a services component for the improvement and development of related items. UGL's Canadian distribution capabilities combined with Peerless' domestic manufacturing experience with the DND provide strong candidacy for the Company's bid. An RFP document was released by the Canadian Federal Government in 2019 for bidders on this 20-year $1 billion contract. Responses to the OCFC2 RFP bid are due on February 28, 2020. It is expected that the contract will be awarded by the end of the 2020 calendar year

Depreciation and amortization expense increased by $0.4 million against the first quarter of the prior year as a result of the implementation of IFRS 16 and the capitalization of the Company's building leases effective October 1, 2019. The increase in depreciation expense as a result of IFRS16 was offset by a decrease in rent expense of a similar amount previously expensed to direct expenses.

Interest expense of $0.7 million for the current quarter was up $0.3 million from the same period in fiscal 2018 with the implementation of IFRS 16 and with greater utilization of the Company's operating loan facilities to fund working capital growth, the Company's investment in its new ERP system and its expansion into the US market.

The Company's reported net income of $0.1 million in the quarter ended December 31, 2019 compared to a net loss of $0.9 million in the same quarter last year for the reasons cited above. Cash flow from operations, before non-cash working capital items was $1.8 million for the three months ended December 31, 2019 versus negative $0.4 million for the three-month period ended December 31, 2018.

Business Trends

The UGL segment is seeing rationalization of its competition and opportunities to expand its market share both in Canada and the United States. Following upon the October 1, 2018 Utility acquisition, the Company leased a new 45,000 square foot distribution centre facility in Henderson, Nevada and acquired the hospitality assets of RTUT in Lakewood, New Jersey (since relocated to Farmingdale, New Jersey). Building upon these initial investments, the Company sees significant opportunities for growth in the US market.

As the result of its success with the new uniform rollout to the 30,000 employees of Air Canada, UGL's largest airline account, in fiscal 2017 and 2018, UGL has been working with WestJet on the test of a new uniform and has assumed distribution to its 10,000 uniformed employees of its existing uniform program in the first quarter of fiscal 2020. It is expected that the manufacture of WestJet's new uniform will take place during fiscal 2020 with the rollout of the new uniform to start in early fiscal 2021.

UGL's first U.S. based airline account, Alaska Airlines, began a rollout of new uniforms to its 19,000 uniformed employees starting in mid September 2019 for completion by March 2020. UGL is responsible for all aspects of the program including manufacturing, quality, safety, inventory planning, online ordering, customer service, and warehouse and distribution. UGL is distributing to Alaska Airlines employees from its Henderson Nevada distribution centre. UGL intends to use this location to expand its marketing efforts to other US customers in industry sectors where UGL has built a strong knowledge base, such as in food service, hospitality, private security, retail and transportation.

With $26 million in firm contracts and options on hand as at December 31, 2019 and a number of large potential contracts expected to go to public bid in the near future, the Peerless business segment is well positioned to maintain more normal levels of revenues and profitability for the balance of fiscal 2020 and beyond.

LIQUIDITY

At December 31, 2019, Unisync 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. The maximum amount available under the facilities is based on certain margin requirements and covenants as stipulated in the loan facility agreements.

On October 1, 2018, the Company established two new term loan facilities, a $5 million First Capital Loan Facility and a $2.86 million Second Capital Loan Facility with a Canadian chartered bank and repaid its existing term loan. The First Capital term loan is repayable by way of quarterly principal payments of $0.25 million over a notional five year amortization period but shall be paid in full by October 1, 2021 unless extended and the Second Capital term loan is repayable by way of quarterly principal payments of $0.036 million over a notional twenty year amortization period but shall be paid in full by October 1, 2021 unless extended.

The Company received bank postponed shareholder advances of $1.75 million in July 2019 and $2.0 million in November 2019. Interest and processing fees on the advances are accrued and are to be repaid with the principal amounts of the advances on March 15, 2020.

On December 30, 2019, the Company completed a private placement of 924,703 Common shares at a price of $3.30 per share for total gross proceeds of $3 million received, less costs of issuance of $0.2 million.

Excluding the current portion of the term loan facilities and of long-term lease facilities and the shareholder financing, Unisync had working capital of $19.1 million and $14.3 million at December 31, 2019 and September 30, 2019, respectively. As at December 31, 2019, the Company had outstanding foreign exchange contracts of $nil (September 30, 2019 - $nil) and letters of credit of $0.4 million (September 30, 2019 - $0.4 million) along with operating loans outstanding of $23.5 million (September 30, 2019 - $24.5

million) under its three operating loan facilities. As the Company grows its US customer base, its US dollar revenues are expected to increase, creating a natural hedge against its US dollar offshore purchases and thereby reducing the Company's exposure to changes in the Canadian/US dollar exchange rate.

The net $2.8 million raised from the December 2019 Common share issue and the $2.0 million increase in shareholder advances during November 2019 were used to reduce bank operating loan and term loans balances by $1.3 million and fund a $3.2 million increase in working capital during the quarter ended December 31, 2019.

Capital expenditures on property, plant and equipment for the three months ended December 31, 2019 of $0.4 million were up $0.3 million from the prior year and were largely spend on leasehold improvements at the Company's new distribution centre in Richmond, British Columbia which was relocated from a smaller Vancouver location in October 2019. The Company began to implement a new Enterprise Resource Planning computer system in fiscal 2018 with expenditures of $1.0 million being recorded as a long-term prepaid expense in that year. In fiscal 2019 a further $1.1 million was expended on the project and the full $2.1 million amount was recorded as an intangible asset as the software was put in partial use in September 2019. During the three months ended December 31, 2019, the Company incurred capital expenditures of $0.2 million on the ERP project. It expects to expend a further amount of approximately $0.5 million to complete the system implementation across the organization during its September 30, 2020 fiscal year.

SHARE CAPITAL

The following table sets out the share capitalization of the Company as at December 31, 2019 and the date of this MD&A.

Description	Authorized	Outstanding as at December 31, 2019	Outstanding as at the date of this MD&A
Common Shares	Unlimited	18,562,228	18,562,228
Stock Options – Common Shares	1,763,753	1,170,000	1,170,000
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:

- the Company's plan to expand into other segments of the garment industry and/or to add established revenue producing businesses in Canada and the United States as stated in the Business Strategy and Business Trends sections;
- that the UGL segment will pursue new accounts in the United States marketplace with the expectation of growing its US dollar revenues and thereby minimizing its exposure to exchange fluctuations between the Canadian and US dollar as outlined in the Business Trends and Liquidity sections;
- that the UGL segment will ship new uniforms to Alaska Airlines in fiscal 2020 and to WestJet in fiscal 2021 as outlined in the Business Trends section;

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

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

RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2019, interest and processing fees of $104,916 were accrued on $2,050,000 of shareholder advances (December 31, 2018 - interest and processing and extension fees of $nil) that were provided by Bruce Aunger, Darryl Eddy, Douglas Good, and Michael O'Brian, members of the Company's board of directors.

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 (December 31, 2018 - $7,317) for its head office location.

The Company paid $nil (December 31, 2018 - $200,000) in consulting fees to a company controlled by Douglas Good, the Company's Executive Chairman and former Chief Executive Officer.

The Company expensed $nil (December 31, 2018 - $2,118) in share based payment to Bruce Aunger, Darryl Eddy, Joel McLean and Michael O'Brian, non-salaried members of the Company's board of directors.

Albert El Tasi, the Company's minority partner in the Peerless segment received an income allocation of $21,616 (December 31, 2018 – negative $18,628).

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 Executive Chairman.

Citadel Securities Canada ULC provides market-making services and maintains an orderly trading market for the shares of the Company.