

Condensed interim consolidated financial statements of

Unisync Corp.

As at and for the three and six month period ended March 31, 2023

Unisync Corp.

March 31, 2023

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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 six months ended March 31, 2023.

Unisync Corp.

Condensed interim consolidated statements of loss

For the three and six months ended March 31, 2023 and March 31, 2022

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		six months ended	
	March 31	March 31	March 31	March 31
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenue	28,654,877	24,561,859	57,527,316	46,397,326
Direct expenses (Note 16)	23,289,262	18,354,988	45,719,017	34,793,756
General and administrative expenses (Note 16)	4,287,273	4,865,655	8,659,472	9,019,924
Depreciation and amortization (Notes 5,6,7)	1,231,607	1,114,059	2,341,654	2,148,784
	(153,265)	227,157	807,173	434,862
Interest expense (Notes 9,10,11,12)	853,014	394,946	1,523,673	674,306
Share-based payment (Note 14)	-	152,020	-	210,108
(Gain) loss on sale of New Jersey division (Note 20)	98,709	-	(324,459)	-
Net loss before income taxes	(1,104,988)	(319,809)	(392,041)	(449,552)
Income tax recovery (Note 15)	(277,183)	(34,824)	(76,081)	(63,557)
Net loss	(827,805)	(284,985)	(315,960)	(385,995)
Attributable to				
Unisync Corp. shareholders	(860,745)	(341,916)	(352,362)	(513,983)
Minority partner	32,940	56,931	36,402	127,988
	(827,805)	(284,985)	(315,960)	(385,995)
Net income (loss) per share attributable to Unisync Corp. shareholders				
Basic	(0.05)	(0.02)	(0.02)	(0.03)
Diluted	(0.05)	(0.02)	(0.02)	(0.03)
Weighted average number of shares	19,012,228	19,012,228	19,012,228	19,008,794
Diluted weighted number of shares outstanding	19,082,587	19,110,612	19,097,117	19,150,051

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

Unisync Corp.

Condensed interim consolidated statements of comprehensive income (loss)

For the three and six months ended March 31, 2023 and March 31, 2022

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		six months ended	
	March 31,	March 31,	March 31,	March 31,
	2023	2022	2023	2022
	\$	\$	\$	\$
Net loss	(827,805)	(284,985)	(315,960)	(385,995)
Items that may be reclassified subsequently to income or loss				
Other comprehensive income (loss), net of taxes				
Currency translation adjustment	(314,676)	(12,588)	(20,088)	180,234
Comprehensive income	(1,142,481)	(297,573)	(336,048)	(205,761)
Attributable to				
Unisync Corp. shareholders	(1,178,991)	(354,504)	(376,020)	(333,749)
Minority partner	32,940	56,931	36,402	127,988
	(1,146,051)	(297,573)	(339,618)	(205,761)

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 March 31, 2023 and September 30, 2022

(Expressed in Canadian dollars)

(Unaudited)

	March 31, 2023	September 30, 2022
	\$	\$
Assets		
Current assets		
Cash	82,899	97,261
Trade and other receivables	16,101,708	13,273,404
Inventory (Note 4)	58,060,916	56,198,799
Prepaid expenses and deposits	2,993,700	2,548,444
Current portion of note receivable (Note 20)	270,660	-
	77,509,883	72,117,908
Non-current assets		
Cash surrender value of life insurance policy	86,601	86,601
Note receivable (Note 20)	270,660	-
Property, plant and equipment (Note 5)	7,937,261	8,394,864
Right of use assets (Note 6)	12,660,812	7,992,674
Deferred tax asset (Note 15)	2,144,690	2,068,609
Intangible assets (Note 7)	6,552,695	7,318,312
Goodwill (Note 8)	6,384,797	6,384,797
	113,547,399	104,363,765
Liabilities		
Current liabilities		
Operating loan (Note 9)	26,188,963	25,756,045
Trade payables and accrued liabilities	10,266,727	12,580,607
Deferred revenue	21,372,135	16,686,528
Current portion of mortgage loans (Note 10)	287,436	281,613
Current portion of long-term lease liabilities (Note 11)	1,522,528	1,222,736
Shareholder advances (Note 12)	2,030,384	-
Due to minority partner (Note 13)	1,500,000	1,500,000
	63,168,173	58,027,529
Non-current liabilities		
Mortgage loans (Note 10)	9,184,987	9,326,615
Long-term lease liabilities (Note 11)	13,277,049	8,712,251
	85,630,209	76,066,395
Commitments and contingencies (Note 17)		
Equity		
Share capital (Note 14)	30,447,488	30,447,488
Share-based payment reserve	2,250,172	2,250,172
Deficit	(4,706,762)	(4,334,312)
Equity attributable to Unisync Corp. shareholders	27,990,898	28,363,348
Deficit attributable to minority partner	(73,708)	(65,978)
	27,917,190	28,297,370
	113,547,399	104,363,765

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 six months ended March 31, 2023 and March 31, 2022

(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					
		\$	\$	\$	\$	\$	\$
Balance,							
September 30, 2021	18,987,228	30,389,749	1,856,200	(2,872,351)	29,373,598	(82,239)	29,291,359
Shares issued on exercise of							
stock options (Note 14 (c))	25,000	57,739	(13,989)	-	43,750	-	43,750
Share-based payment	-	-	210,108	-	210,108	-	210,108
Distribution to minority partner	-	-	-	-	-	(95,813)	(95,813)
Net loss	-	-	-	(513,983)	(513,983)	127,988	(385,995)
Other comprehensive income	-	-	-	180,234	180,234	-	180,234
Balance,							
March 31, 2022	19,012,228	30,447,488	2,052,319	(3,206,100)	29,293,707	(50,064)	29,243,643
Balance,							
September 30, 2022	19,012,228	30,447,488	2,250,172	(4,334,312)	28,363,348	(65,978)	28,297,370
Distribution to minority partner	-	-	-	-	-	(44,132)	(44,132)
Net income	-	-	-	(352,362)	(352,362)	36,402	(315,960)
Other comprehensive loss	-	-	-	(20,088)	(20,088)	-	(20,088)
Balance,							
March 31, 2023	19,012,228	30,447,488	2,250,172	(4,706,762)	27,990,898	(73,708)	27,917,190

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 six months ended March 31, 2023 and March 31, 2022

(Expressed in Canadian dollars)

(Unaudited)

	three months ended		six months ended	
	March 31,	March 31,	March 31,	March 31,
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating activities				
Net loss	(827,805)	(284,985)	(315,960)	(385,995)
Adjustments for:				
Interest expense	853,014	394,946	1,523,673	674,306
Income tax recovery	(277,183)	(34,824)	(76,081)	(63,557)
Income taxes paid	(55,424)	(173,230)	(55,424)	(173,230)
Depreciation and amortization	1,231,607	1,114,059	2,341,654	2,148,784
Share-based payment	-	152,020	-	210,108
	924,209	1,167,986	3,417,862	2,410,416
Changes in non-cash working capital items				
Trade and other receivables	(693,571)	(2,376,677)	(2,828,304)	(1,611,233)
Inventory	(1,955,844)	(6,492,737)	(1,862,117)	(11,445,190)
Prepaid expenses and deposits	284,506	1,003,633	(445,256)	48,527
Trade payables and accrued liabilities	2,386,462	2,388,412	(2,313,880)	3,132,278
Deferred revenue	1,228,841	1,674,963	4,685,607	3,946,988
Net cash used in/from operating activities	2,174,603	(2,634,420)	653,912	(3,518,214)
Investing activities				
Purchase of property, plant and equipment	(120)	(76,847)	(74,234)	(105,282)
Purchase of intangible assets	(13,571)	(73,330)	(320,432)	(347,784)
Net cash used in investing activities	(13,691)	(150,177)	(394,666)	(453,066)
Financing activities				
Increase (decrease) in operating loan	(680,851)	3,255,211	432,918	4,907,420
Mortgage loans repayments	(70,040)	(67,231)	(139,366)	(108,492)
Repayment of lease liabilities	(573,582)	(428,660)	(1,009,386)	(840,274)
Shareholder advances	-	-	2,000,000	-
Interest paid	(659,194)	(263,787)	(1,170,069)	(412,421)
Distributions to minority partner	(14,217)	(45,626)	(44,132)	(95,813)
Proceeds on exercise of stock options	-	-	-	43,750
Net cash used in/from financing activities	(1,997,884)	2,449,671	69,965	3,493,934
Effect of foreign exchange rates	(243,541)	172,697	(343,573)	360,122
Net cash outflows	(80,513)	(162,229)	(14,362)	(117,224)
Cash, beginning of period	163,412	320,461	97,261	275,456
Cash, end of period	82,899	158,232	82,899	158,232

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

Unisync Corp.

Notes to the condensed interim consolidated financial statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

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 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. On January 4, 2023, Utility Garments Inc. ("Utility") of Saint-Laurent, Quebec was amalgamated with Unisync Group Limited to continue as Utility Garments, a division of 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 and Henderson, Nevada.

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, 2022. 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, 2022 as filed on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on May 12, 2023.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

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 14). 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, 2022. 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

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

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

	March 31, 2023	September 30, 2022
	\$	\$
Raw materials	4,867,668	5,168,313
Work in process	1,852,421	2,265,511
Finished goods	51,340,827	48,764,975
	58,060,916	56,198,799

Cost of inventories recognized as an expense during the six months ended March 31, 2023 amounted to \$33,600,852 (March 31, 2022 - \$23,057,783). During the six months ended March 31, 2023, inventory was written down by \$nil (March 31, 2022 - \$nil). The carrying amount of inventory recorded at net realizable value at March 31, 2023 was \$692,702 (September 30, 2022 - \$nil), with the remaining inventory recorded at cost.

Unisync Corp.

Notes to the condensed interim consolidated financial statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

5. Property, plant and equipment

								March 31, 2023
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2022	2,622,730	5,047,257	2,071,546	1,022,787	443,586	115,938	2,038,597	13,362,441
Additions	-	-	2,899	5,447	-	-	65,888	74,234
Disposals	-	-	(173,156)	(50,882)	(4,882)	-	(76,877)	(305,797)
Effect of foreign exchange rates	-	-	(1,576)	(197)	(572)	-	(2,378)	(4,723)
Balance at March 31, 2023	2,622,730	5,047,257	1,899,713	977,155	438,132	115,938	2,025,230	13,126,155
<i>Accumulated depreciation</i>								
Balance at September 30, 2022	-	1,230,039	1,461,848	771,939	275,736	113,759	1,114,256	4,967,577
Depreciation	-	89,767	46,090	32,268	24,572	427	192,406	385,530
Disposals	-	-	(91,775)	(27,917)	(2,521)	-	(39,720)	(161,933)
Effect of foreign exchange rates	-	-	3,439	(4,251)	(272)	-	(1,196)	(2,280)
Balance at March 31, 2023	-	1,319,806	1,419,602	772,039	297,515	114,186	1,265,746	5,188,894
<i>Net carrying amount</i>								
At March 31, 2023	2,622,730	3,727,451	480,111	205,116	140,617	1,752	759,484	7,937,261
								September 30, 2022
	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
Balance at September 30, 2021	2,622,730	5,022,933	1,993,916	999,976	404,835	115,938	1,915,672	13,076,000
Additions	-	24,324	56,679	18,129	35,230	-	104,305	238,667
Effect of foreign exchange rates	-	-	20,951	4,682	3,521	-	18,620	47,774
Balance at September 30, 2022	2,622,730	5,047,257	2,071,546	1,022,787	443,586	115,938	2,038,597	13,362,441
<i>Accumulated depreciation</i>								
Balance at September 30, 2021	-	1,049,226	1,313,636	712,526	218,423	118,928	776,472	4,189,211
Depreciation	-	180,813	137,873	54,277	55,575	(5,169)	328,595	751,964
Effect of foreign exchange rates	-	-	10,339	5,136	1,738	-	9,189	26,402
Balance at September 30, 2022	-	1,230,039	1,461,848	771,939	275,736	113,759	1,114,256	4,967,577
<i>Net carrying amount</i>								
At September 30, 2022	2,622,730	3,817,218	609,698	250,848	167,850	2,179	924,341	8,394,864

Unisync Corp.

Notes to the condensed interim consolidated financial statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

6. Right of use assets

	March 31, 2023
	\$
<i>Cost</i>	
Balance at September 30, 2022	12,350,188
Right of use leases added	5,688,715
Right of use leases terminated	(507,822)
Effect of foreign exchange rates	(19,218)
Balance at March 31, 2023	17,511,863
<i>Accumulated depreciation</i>	
Balance at September 30, 2022	4,357,514
Right of use leases terminated	(365,172)
Depreciation	870,940
Effect of foreign exchange rates	(12,231)
Balance at March 31, 2023	4,851,051
<i>Net carrying amount</i>	
At March 31, 2023	12,660,812
	September 30, 2022
	\$
<i>Cost</i>	
Balance at September 30, 2021	12,207,704
Effect of foreign exchange rates	142,484
Balance at September 30, 2022	12,350,188
<i>Accumulated depreciation</i>	
Balance at September 30, 2021	2,802,894
Depreciation	1,463,225
Effect of foreign exchange rates	91,395
Balance at September 30, 2022	4,357,514
<i>Net carrying amount</i>	
At September 30, 2022	7,992,674

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

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

7. Intangible assets

	March 31, 2023			
	\$			
	Computer software	Customer relationships from Utility acquisition	Standards certification	Total
<i>Cost</i>				
Balance at September 30, 2022	7,079,275	7,195,285	74,143	14,348,703
Additions	320,432	-	-	320,432
Effect of foreign exchange rates	(1,496)	-	-	(1,496)
Balance at March 31, 2023	7,398,211	7,195,285	74,143	14,667,639
<i>Accumulated amortization</i>				
Balance at September 30, 2022	3,680,446	3,286,254	63,691	7,030,391
Amortization	661,551	419,892	3,741	1,085,184
Effect of foreign exchange rates	(631)	-	-	(631)
Balance at March 31, 2023	4,341,366	3,706,146	67,432	8,114,944
<i>Net carrying amount</i>				
At March 31, 2023	3,056,845	3,489,139	6,711	6,552,695

	September 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	6,638,272	251,440	7,195,285	63,137	14,148,134
Additions	432,691	-	-	11,006	443,697
Effect of foreign exchange rates	8,312	-	-	-	8,312
Balance at September 30, 2022	7,079,275	251,440	7,195,285	74,143	14,600,143
<i>Accumulated amortization</i>					
Balance at September 30, 2021	2,665,937	229,374	2,519,352	57,851	5,472,514
Depreciation	1,014,005	22,066	766,902	5,840	1,808,813
Effect of foreign exchange rates	504	-	-	-	504
Balance at September 30, 2022	3,680,446	251,440	3,286,254	63,691	7,281,831
<i>Net carrying amount</i>					
At September 30, 2022	3,398,829	-	3,909,031	10,452	7,318,312

Unisync Corp.

Notes to the condensed interim consolidated financial statements

March 31, 2023

(Expressed in Canadian dollars)

(Unaudited)

8. Goodwill

	March 31, 2023	September 30 2022
	\$	\$
<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
	6,384,797	6,384,797

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 \$24,000,000 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 March 31, 2023, combined drawings under the operating loan facilities were \$26,188,963 (September 30, 2022 - \$25,756,045). The borrowings under the operating loan facilities are available by way of prime rate advances, banker's acceptances or SOFR advances. Prime rate advances under the operating loan facilities bear interest at bank prime rate plus 1.0%. During the six months ended March 31, 2023, the Company incurred interest expense of \$868,263 (March 31, 2022 - \$240,554) on borrowings under its operating loan facilities. In addition, the Company has an unutilized foreign exchange loan facility to purchase foreign exchange contracts up to an aggregate of USD18,000,000, a \$200,000 credit card facility and an unutilized \$19,000,000 interest rate swap facility. Security for the loan facilities include a second mortgage on the Company's land and buildings, general security agreements, a specific pledge of certain assets and inter-company guarantees. As at March 31, 2023, the Company was in compliance with the covenants of its operating loan facilities.

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10. Mortgage loans

	March 31, 2023
	\$
Balance at September 30, 2022	9,608,228
Repayment of mortgage loans	(139,366)
Amortization of mortgage loans financing fees	3,561
Balance at March 31, 2023	9,472,423
Less: current portion of mortgage loans	287,436
Balance at March 31, 2023	9,184,987

	September 30, 2022
	\$
Balance at September 30, 2021	9,847,003
Repayment of mortgage loans	(245,035)
Amortization of mortgage loans financing fees	6,260
Balance at September 30, 2022	9,608,228
Less: current portion of mortgage loans	281,613
Balance at September 30, 2022	9,326,615

On July 26, 2021, the Company established two mortgage loan facilities with the Business Development Bank of Canada ("BDC") in amounts of \$3,880,000 (the "Peerless" mortgage loan) and \$6,120,000 (the "Utility" mortgage loan) secured by first mortgages over the Companies land and buildings, by general security agreements and inter-company guarantees. The BDC mortgage loans were used to repay outstanding balances under existing term loans facilities and to repay postponed shareholder advances. Advances under the Peerless and Utility mortgage loans bear interest at a fixed rate of 4.10% until May 1, 2026. The Peerless mortgage loan is repayable in blended monthly instalments of principal and interest of \$23,717 that began on November 1, 2021 over a 240 month term. The Utility mortgage loan is repayable in blended monthly instalments of principal and interest of \$32,642 that began on November 1, 2021 over a 300 month term. During the six months ended March 31, 2023, the Company recorded interest expense of \$198,791 (March 31, 2022 - \$174,942) on borrowings under its BDC mortgage loans. As at March 31, 2023, the Company was in compliance with the covenants of its mortgage loan facilities.

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11. Long-term lease liabilities

	March 31, 2023
	\$
Balance at September 30, 2022	9,934,987
Leases added	5,688,715
Leases terminated	(140,862)
Repayment of lease liabilities	(1,009,386)
Interest accretion	334,542
Effect of foreign exchange rates	(8,419)
Balance at March 31, 2023	14,799,577
Less: current portion of long-term lease liabilities	1,522,528
Balance at March 31, 2023	13,277,049

	September 30, 2022
	\$
Balance at September 30, 2021	10,979,093
Repayment of lease liabilities	(1,697,706)
Interest accretion	594,684
Effect of foreign exchange rates	58,916
Balance at September 30, 2022	9,934,987
Less: current portion of long-term lease liabilities	1,222,736
Balance at September 30, 2022	8,712,251

During the six months ended March 31, 2023, the Company accreted interest expense of \$334,542 (March 31, 2022 - \$258,810) on its long term lease liabilities.

12. Shareholder advances

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. During the six months ended March 31, 2023, the Company recorded interest and processing fees of \$122,077 (March 31, 2022 - \$nil) on the shareholder advances to interest expense.

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13. Due to minority partner

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

14. Capital stock

(a) Authorized

Unlimited number of the following classes of shares:

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

(b) Shares issued and fully paid

	Common shares	Amount \$
Balance, September 30, 2021	18,987,228	30,389,749
Shares issued on exercise of stock options (Note 13 (d))	25,000	57,739
Balance, September 30, 2022	19,012,228	30,447,488
Balance, March 31, 2023	19,012,228	30,447,488

(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 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 six months ended March 31, 2023, nil options were exercised (March 31, 2022 – 25,000) and 80,000 options were forfeited (March 31, 2022 – 507,500).

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

The following table summarizes stock options outstanding:

	six months ended March 31, 2023		six months ended March 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	1,515,000	2.20	1,740,000	2.13
Granted during the period	-	-	500,000	2.90
Exercised during the period	-	-	(25,000)	1.75
Forfeited during the period	(80,000)	3.08	(507,500)	2.43
Outstanding, end of period	1,435,000	2.15	1,665,000	2.27

Based on the above vesting schedule, a stock option compensation expense of \$nil was recognized for the six month period ended March 31, 2023 (March 31, 2022 - \$210,108) 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.

15. Income taxes

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

	three months ended March 31 2023	three months ended March 31 2022	six months ended March 31 2023	six months ended March 31 2022
	\$	\$	\$	\$
Income tax (recovery) expense	-	-	-	-
Deferred tax recovery	(277,183)	(34,824)	(76,081)	(63,557)
Income tax recovery	(277,183)	(34,824)	(76,081)	(63,557)

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 March 31 2023	three months ended March 31 2022	six months ended March 31 2023	six months ended March 31 2022
	\$	\$	\$	\$
Net loss before income taxes	(1,104,988)	(319,809)	(392,041)	(449,552)
Tax rate	26.2%	26.2%	26.2%	26.2%
	(289,507)	(83,790)	(102,715)	(117,783)
Taxes attributable to minority partner	(8,633)	(14,932)	(9,566)	(33,572)
True-ups	20,548	22,243	34,901	28,284
Permanent differences	409	41,655	1,299	59,514
Income tax expense	(277,183)	(34,824)	(76,081)	(63,557)

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15. Income taxes (continued)

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

	March 31, 2023	September 30, 2022
	\$	\$
Deferred tax assets		
Available non-capital losses and other tax deductions	4,014,917	3,995,973
Deferred tax liabilities		
Property, plant and equipment	(1,870,227)	(1,927,364)
	2,144,690	2,068,609

The Company has non-capital losses of approximately \$11,821,000 (September 30, 2022 - \$12,450,000) 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 \$3,215,000 (September 30, 2022 - \$3,386,000) that is included in the deferred tax asset balance at March 31, 2023. 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 March 31, 2023.

16. Expenses by nature

	three months ended March 31 2023	three months ended March 31 2022	six months ended March 31 2023	six months ended March 31 2022
	\$	\$	\$	\$
Direct expenses:				
Materials	17,301,732	12,290,138	33,600,852	23,057,783
Wages and benefits	2,894,762	2,686,339	6,057,053	5,260,443
Delivery	1,999,924	1,487,125	4,043,217	2,723,403
Rent, utilities and other property costs	727,629	464,010	1,309,860	841,385
Subcontract fees	273,022	1,331,269	472,701	2,783,118
Insurance	(1,167)	(876)	3,214	1,669
Other	93,360	96,983	232,120	125,955
	23,289,262	18,354,988	45,719,017	34,793,756
General and administrative expenses:				
Wages and benefits	2,658,693	3,018,845	5,297,030	5,345,293
Data services, system maintenance, telecommunications and software licenses	550,118	703,924	1,174,711	1,346,213
Legal, bank, insurance and professional services	468,482	428,046	938,616	933,337
Advertising, marketing and other promotion costs	186,070	120,099	253,923	239,108
Rent, utilities and other property costs	86,861	116,548	172,789	223,430
Other	337,049	478,193	822,403	932,543
	4,287,273	4,865,655	8,659,472	9,019,924

Unisync Corp.

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17. Commitments and contingencies

- (a) At March 31, 2023, the Company had \$1,485,500 (September 30, 2022 - \$1,485,500) 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 March 31, 2023 (September 30, 2022 - \$nil)

18. Economic dependence

During the six month period ended March 31, 2023, revenue from the Canadian military and other Canadian governmental agencies accounted for 6% of total revenue (March 31, 2022 - 21%), and revenue from two airline industry customers accounted for 35% of total revenue (March 31, 2022 - 24%).

19. 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			March 31
				2023
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	2,739,987	25,937,074	(22,184)	28,654,877
Direct expenses	2,063,005	21,248,441	(22,184)	23,289,262
General and administrative expenses	311,745	3,831,579	143,949	4,287,273
Depreciation and amortization	10,788	1,111,364	109,455	1,231,607
	354,449	(254,310)	(253,404)	(153,265)
Interest expense	25,051	731,777	96,186	853,014
Loss on sale of New Jersey division	-	98,709	-	98,709
Share based payment	-	-	-	-
Net loss before income taxes	329,398	(1,084,796)	(349,590)	(1,104,988)
Capital expenditures on property, plant and equipment	-	120	-	120
Capital expenditures on intangible assets	-	13,571	-	13,571

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19. Segmented information (continued)

	six months ended March 31 2023			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	5,320,430	52,350,111	(143,225)	57,527,316
Direct expenses	4,257,388	41,604,854	(143,225)	45,719,017
General and administrative expenses	616,200	7,753,354	289,918	8,659,472
Depreciation and amortization	21,576	2,101,169	218,909	2,341,654
	425,266	890,734	(508,827)	807,173
Interest expense	61,250	1,340,346	122,077	1,523,673
Gain on sale of New Jersey division	-	(324,459)	-	(324,459)
Share based payment	-	-	-	-
Net income before income taxes	364,016	(125,153)	(630,904)	(392,041)
Capital expenditures on property, plant and equipment	-	74,234	-	74,234
Capital expenditures on intangible assets	-	320,432	-	320,432
Total assets	9,645,364	90,890,860	13,011,175	113,547,399
Property, plant and equipment	2,583,100	5,354,161	-	7,937,261
Right of use assets	-	12,660,812	-	12,660,812
Intangible assets	-	6,552,695	-	6,552,695
Goodwill	2,586,000	3,798,797	-	6,384,797
Liabilities, excluding due to minority partner	5,218,136	78,912,073	-	84,130,209

	three months ended March 31 2022			
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	5,061,749	19,511,734	(11,624)	24,561,859
Direct expenses	4,127,608	14,239,004	(11,624)	18,354,988
General and administrative expenses	329,250	4,057,510	478,895	4,865,655
Depreciation and amortization	12,593	991,706	109,760	1,114,059
	592,298	223,514	(588,655)	227,157
Interest expense	22,990	371,956	-	394,946
Share based payment	-	-	152,020	152,020
Net income (loss) before income taxes	569,308	(148,442)	(740,675)	(319,809)
Capital expenditures on property, plant and equipment	-	76,847	-	76,847
Capital expenditures on intangible assets	-	73,330	-	73,330

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19. Segmented information (continued)

	six months ended			March 31
				2022
	Peerless	UGL	Eliminations adjustments and corporate expenses	Total
	\$	\$	\$	\$
Revenue	9,410,439	37,006,898	(20,011)	46,397,326
Direct expenses	7,385,123	27,428,644	(20,011)	34,793,756
General and administrative expenses	676,820	7,584,624	758,480	9,019,924
Depreciation and amortization	25,186	1,904,078	219,520	2,148,784
	1,323,310	89,552	(978,000)	434,862
Interest expense	43,429	630,877	-	674,306
Share based payment	-	-	210,108	210,108
Net income (loss) before income taxes	1,279,881	(541,325)	(1,188,108)	(449,552)
Capital expenditures on property, plant and equipment	4,350	100,932	-	105,282
Capital expenditures on intangible assets	-	347,784	-	347,784
Total assets	10,942,348	74,816,069	13,492,431	99,250,848
Property, plant and equipment	887,847	4,300,148	3,426,735	8,614,730
Right of use assets	-	8,640,276	-	8,640,276
Intangible assets	-	5,372,863	2,616,207	7,989,070
Goodwill	-	1,221,695	5,163,102	6,384,797
Liabilities, excluding due to minority partner	6,279,975	62,000,345	226,885	68,507,205

20. Sale of New Jersey division

On December 14, 2022, the Company sold its New Jersey based hospitality business and assets (consisting of inventory, prepaid deposits, equipment and goodwill less deferred revenue) operated under the trade name Red the Uniform Tailor for \$1,946,842, recording a gain of \$324,459 on the sale. The sales proceeds were received in the form of cash of \$1,405,082 at closing and a \$541,320 promissory note to be paid in four equal consecutive semi-annual payments commencing six (6) months following the closing.