Condensed interim consolidated financial statements of

Unisync Corp.

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

Unisync Corp.
December 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 months ended December 31, 2023.

Unisync Corp.

Condensed interim consolidated statements of income (loss)

For the three months ended December 31, 2023 and December 31, 2022

(Expressed in Canadian dollars)
(Unaudited)

	three months ended	
	December 31 2023	December 31 2022
	$	$
Revenue	**22,967,628**	28,872,438
Direct expenses (Note 15)	**18,076,988**	22,429,754
General and administrative expenses (Note 15)	**3,685,869**	4,372,199
Depreciation and amortization (Notes 5,6,7)	**1,380,086**	1,110,047
	(175,315)	960,438
Interest expense (Notes 9,10,11)	**897,656**	670,659
Gain on sale of New Jersey division	**-**	(423,168)
Net income (loss) before income taxes	**(1,072,971)**	712,947
Income tax expense (recovery) (Note 14)	**(270,343)**	201,102
Net income (loss)	**(802,628)**	511,845
Attributable to		
Unisync Corp. shareholders	**(812,810)**	508,383
Minority partner	**10,182**	3,462
	(802,628)	511,845
Net income (loss) per share attributable to Unisync Corp. shareholders		
Basic	**(0.04)**	0.03
Diluted	**(0.04)**	0.03
Weighted average number of shares	**19,012,228**	19,012,228
Diluted weighted number of shares outstanding	**19,012,228**	19,058,298

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 months ended December 31, 2023 and December 31, 2022

(Expressed in Canadian dollars)
(Unaudited)

	three months ended	
	December 31, 2023	December 31, 2022
	$	$
Net income (loss)	**(802,628)**	511,845
Items that may be reclassified subsequently to income or loss		
Other comprehensive income, net of taxes		
Currency translation adjustment	**23,636**	294,588
Comprehensive income	**(778,992)**	806,433
Attributable to		
Unisync Corp. shareholders	**(789,174)**	802,971
Minority partner	**10,182**	3,462
	(778,992)	806,433

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

Unisync Corp.

Condensed interim consolidated statements of financial position

As at December 31, 2023 and September 30, 2023

(Expressed in Canadian dollars)
(Unaudited)

	December 31, 2023	September 30, 2023
	$	$
Assets		
Current assets		
Cash	**192,203**	2,162
Trade and other receivables	**13,925,550**	13,050,526
Inventory (Note 4)	**54,306,685**	53,779,589
Prepaid expenses and deposits	**2,723,822**	2,909,015
	71,148,260	69,741,292
Non-current assets		
Cash surrender value of life insurance policy	**-**	86,601
Note receivable	**-**	135,200
Property, plant and equipment (Note 5)	**8,213,011**	8,387,898
Right of use assets (Note 6)	**13,422,728**	13,952,801
Deferred tax asset (Note 14)	**5,600,565**	5,330,222
Intangible assets (Note 7)	**4,786,482**	5,401,960
Goodwill (Note 8)	**6,384,797**	6,384,797
	109,555,843	109,420,771
Liabilities		
Current liabilities		
Operating loan (Note 9)	**27,549,631**	26,109,074
Trade payables and accrued liabilities	**15,489,566**	15,934,241
Deferred revenue	**14,129,198**	13,723,933
Current portion of mortgage loans (Note 10)	**16,614,898**	16,683,772
Current portion of long-term lease liabilities (Note 11)	**1,611,175**	1,575,249
Due to minority partner (Note 12)	**1,500,000**	1,500,000
	76,894,468	75,526,269
Non-current liabilities		
Long-term lease liabilities (Note 11)	**14,401,501**	14,878,693
	91,295,969	90,404,962
Equity		
Share capital (Note 13)	**30,447,488**	30,447,488
Share-based payment reserve	**2,250,172**	2,250,172
Deficit	**(14,360,606)**	(13,571,432)
Equity attributable to Unisync Corp. shareholders	**18,337,054**	19,126,228
Deficit attributable to minority partner	**(77,180)**	(110,419)
	18,259,874	19,015,809
	109,555,843	109,420,771

Commitments and contingencies (Note 16)

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 months ended December 31, 2023 and December 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, 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	-	-	-	-	-	(29,915)	(29,915)
Net income				508,383	508,383	3,462	511,845
Other comprehensive loss	-	-	-	294,588	294,588	-	294,588
Balance,							
December 31, 2022	**19,012,228**	**30,447,488**	**2,250,172**	**(3,531,341)**	**29,166,319**	**(92,431)**	**29,073,888**
Balance,							
September 30, 2023	**19,012,228**	**30,447,488**	**2,250,172**	**(13,571,432)**	**19,126,228**	**(110,419)**	**19,015,809**
Distribution to minority partner	-	-	-	-	-	23,057	23,057
Net loss				(812,810)	(812,810)	10,182	(802,628)
Other comprehensive income (loss)	-	-	-	23,636	23,636	-	23,636
Balance,							
December 31, 2023	**19,012,228**	**30,447,488**	**2,250,172**	**(14,360,606)**	**18,337,054**	**(77,180)**	**18,259,874**

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 months ended December 31, 2023 and December 31, 2022

(Expressed in Canadian dollars)

(Unaudited)

	three months ended	
	December 31, 2023	December 31, 2022
	$	$
Operating activities		
Net income (loss)	**(802,628)**	511,845
Adjustments for:		
Interest expense	**897,656**	670,659
Income tax expense (recovery)	**(270,343)**	201,102
Income taxes paid	-	-
Depreciation and amortization	**1,380,086**	1,110,047
	1,204,771	2,493,653
Changes in non-cash working capital items		
Trade and other receivables	**(739,824)**	(2,134,733)
Inventory	**(527,096)**	93,727
Prepaid expenses and deposits	**185,193**	(729,762)
Trade payables and accrued liabilities	**(444,675)**	(4,700,342)
Deferred revenue	**405,265**	3,456,766
Net cash from/(used in) operating activities	**83,634**	(1,520,691)
Investing activities		
Purchase of property, plant and equipment	**(111,797)**	(74,114)
Purchase of intangible assets	**(720)**	(306,861)
Proceeds from cash surrender value of life insurance policy	**86,601**	-
Net cash used in investing activities	**(25,916)**	(380,975)
Financing activities		
Increase (decrease) in operating loan	**1,440,557**	1,113,769
Mortgage loans repayments	**(72,217)**	(69,326)
Repayment of lease liabilities	**(567,772)**	(435,804)
Shareholder advances	**-**	2,000,000
Interest paid	**(696,657)**	(510,875)
Distributions to minority partner	**23,057**	(29,915)
Net cash from financing activities	**126,968**	2,067,849
Effect of foreign exchange rates	**5,355**	(100,032)
Net cash inflows	**190,041**	66,151
Cash, beginning of period	**2,162**	97,261
Cash, end of period	**192,203**	163,412

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

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. During the year ended September 30, 2023, Utility Garments Inc. (“Utility”) of Saint-Laurent, Quebec was amalgamated with Unisync Group Limited to continue as 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, Ontario, Vancouver, British Columbia 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, 2023. 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, 2023 as filed on SEDAR+ at www.sedarplus.ca.

These condensed interim consolidated financial statements were approved by the Company’s Board of Directors and authorized for issue on February 13, 2024.

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 judgment in the process of applying the accounting policies. Estimates and judgments 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.

Going Concern

The determination if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. There is an assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Certain judgments are made by management when determining if and when the Company will return to profitable operations.

While its revenues have grown since its 2018 fiscal year, the Company has incurred losses because of the costs associated with the consolidation and restructuring of its acquisitions in Canada, the pursuit of Canadian government contracts, entry into the US market and the implementation of a new ERP system. In addition, in the fiscal years from 2020 to 2022, the COVID-19 pandemic significantly impacted the Company's customers in the hospitality and travel sectors. Following the pandemic, the Company has absorbed the inflationary effect of higher product, labour and borrowing costs as customer contract pricing adjustments lag these cost increases. The Company believes that, based on its forecasts and its initiatives to adjust customer pricing, resource offshore production to lower cost locations and its initiatives to reduce expenditures, it will be able to continue as a going concern for the foreseeable future.

Impact of Rising Interest Rates

The impact of the current environment of rising interest rates and economic uncertainty can be far reaching and difficult to predict and may potentially impact the Company's ability to continue as a going concern. Interest rates can affect many areas within the consolidated financial statements, including accounting estimates, concentration risks, impairment assessments, borrowing costs, debt covenants, and more.

The Company's operating loans with variable rates of interest may be faced with higher repayments because of increased interest rates and may be unable to meet immediate future repayments. The Company's fixed rate mortgage loans may be subject to higher interest rates at the expiry of the current fixed rate periods on the facilities, meaning higher repayments in the future. Although a significant portion of the Company's accounts receivables are insured and/or with government entities, rising interest rates may also result in expectations of increased credit losses.

These risks have been considered when forecasting future cash flows. The Company has taken steps to improve its cash flows through the sale of its non-core New Jersey division, the restructuring of its Canadian distribution and sewing operations, the resourcing of offshore production to lower cost locations and the negotiation of customer contract pricing to respond to the inflationary post pandemic and higher interest rate environment.

(a) Trade and other receivables

The Company maintains an allowance for doubtful accounts to reflect an impairment risk for trade accounts receivable based on an expected credit loss model which factors in changes in credit quality since the initial recognition of trade accounts receivable based on customer risk types (insured and non-receivables, government receivables). Expected credit losses are also provided for based on collection history and specific risks identified on a customer-by-customer basis.

3. Critical accounting estimates and judgments (continued)

(b) Inventory

The Company determines the carrying value of work in progress inventory ("WIP") and estimated net realizable value at the end of each reporting period. Management allocates costs, such as for materials, labour attributable to goods in production and an allocation of overhead, to WIP based on management's estimate of the percentage completion of the goods, and the nature of the costs for producing that particular good. Estimates are required in relation to forecasted sales volumes and finished good inventory balances. In situations where excess or slow moving inventory balances are identified, the Company assesses its ability to recover customer payment for such inventory and estimates of net realizable values for the excess or slow moving volumes are made.

(c) Share-based payment

The Company provides incentives via share-based payment entitlements (Note 13). The fair value of entitlements is determined in accordance with the accounting policy in Note 2(n) of the audited consolidated financial statements for the year ended September 30, 2023. 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.

(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.

(Expressed in Canadian dollars)

3. Critical accounting estimates and judgments (continued)

(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

	December 31, 2023	September 30, 2023
	$	$
Raw materials	**4,784,223**	3,977,236
Work in process	**799,770**	1,351,963
Finished goods	**44,234,463**	44,433,099
Raw materials and finished goods in-transit	**4,488,229**	4,017,291
	54,306,685	53,779,589

Cost of inventories recognized as an expense during the three months ended December 31, 2023 amounted to $13,922,809 (December 31, 2022 - $16,299,120). During the three months ended December 31, 2023, inventory was written down by $34,306 (December 31, 2022 - $nil). The carrying amount of inventory recorded at net realizable value at December 31, 2023 was $1,803,658 (September 30 2023 – $1,769,352), with the remaining inventory recorded at cost.

(Expressed in Canadian dollars)

5. Property, plant and equipment

	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	furnishings and equipment	Vehicles	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Cost								
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	-		107,859	-	3,938	-	-	111,797
Disposals	-	-	-	-	(5,406)	-	-	(5,406)
Effect of foreign exchange rates	-	-	(2,662)	(334)	(967)	-	(4,018)	(7,981)
Balance at December 31, 2023	**2,622,730**	**5,047,257**	**2,176,743**	**1,022,453**	**441,151**	**115,938**	**2,034,579**	**13,460,851**
Accumulated depreciation								
Balance at September 30, 2022	-	1,230,039	1,461,848	771,939	275,736	113,759	1,114,256	4,967,577
Depreciation	-	44,284	17,191	68,501	8,272	872	148,094	287,214
Effect of foreign exchange rates	-	-	(152)	(598)	24	-	(6,225)	(6,951)
Balance at December 31, 2023	**-**	**1,274,323**	**1,478,887**	**839,842**	**284,032**	**114,631**	**1,256,125**	**5,247,840**
Net carrying amount								
At December 31, 2023	**2,622,730**	**3,772,934**	**697,856**	**182,611**	**157,119**	**1,307**	**778,454**	**8,213,011**

September 30, 2023

	Land	Buildings	Warehouse and manufacturing equipment	Computer equipment	Office furnishings and equipment	Vehicles	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at September 30, 2022	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, 2023	2,622,730	5,047,257	2,071,546	1,022,787	443,586	115,938	2,038,597	13,362,441
Accumulated depreciation								
Balance at September 30, 2022	-	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, 2023	-	1,230,039	1,461,848	771,939	275,736	113,759	1,114,256	4,967,577
Net carrying amount								
At September 30, 2023	2,622,730	3,817,218	609,698	250,848	167,850	2,179	924,341	8,394,864

(Expressed in Canadian dollars)

6. Right of use assets

	December 31, 2023
	$
Cost	
Balance at September 30, 2023	**19,572,550**
Effect of foreign exchange rates	**(84,298)**
Balance at December 31, 2023	**19,488,252**
Accumulated depreciation	
Balance at September 30, 2023	**5,619,749**
Depreciation	**477,476**
Effect of foreign exchange rates	**(31,701)**
Balance at December 31, 2023	**6,065,524**
Net carrying amount	
At December 31, 2023	**13,422,728**

	September 30, 2023
	$
Cost	
Balance at September 30, 2022	12,350,188
Right of use leases added	7,998,693
Right of use leases terminated	(831,984)
Effect of foreign exchange rates	55,653
Balance at September 30, 2023	19,572,550
Accumulated depreciation	
Balance at September 30, 2022	4,357,514
Right of use leases terminated	(624,221)
Depreciation	1,841,713
Effect of foreign exchange rates	44,743
Balance at September 30, 2023	5,619,749
Net carrying amount	
At September 30, 2023	13,952,801

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

(Expressed in Canadian dollars)

7. Intangible assets

	Computer software	Customer relationships from Utility acquisition	Standards certification	December 31, 2023 $ Total
Cost				
Balance at September 30, 2023	7,411,767	7,195,285	74,143	14,681,195
Additions	720	-	-	720
Effect of foreign exchange rates	(2,530)	-	-	(2,530)
Balance at December 31, 2023	**7,409,957**	**7,195,285**	**74,143**	**14,679,385**
Accumulated amortization				
Balance at September 30, 2023	5,087,300	4,126,037	65,898	9,279,235
Amortization	404,900	209,946	550	615,396
Effect of foreign exchange rates	(1,728)	-	-	(1,728)
Balance at December 31, 2023	**5,490,472**	**4,335,983**	**66,448**	**9,892,903**
Net carrying amount				
At December 31, 2023	**1,919,485**	**2,859,302**	**7,695**	**4,786,482**

	Computer software	Customer relationships from Utility acquisition	Standards certification	September 30, 2023 $ Total
Cost				
Balance at September 30, 2022	7,079,275	7,195,285	74,143	14,348,703
Additions	334,102	-	-	334,102
Effect of foreign exchange rates	(1,610)	-	-	(1,610)
Balance at September 30, 2023	7,411,767	7,195,285	74,143	14,681,195
Accumulated amortization				
Balance at September 30, 2022	3,680,446	3,286,254	63,691	7,030,391
Depreciation	1,407,464	839,783	2,207	2,249,454
Effect of foreign exchange rates	(610)	-	-	(610)
Balance at September 30, 2023	5,087,300	4,126,037	65,898	9,279,235
Net carrying amount				
At September 30, 2023	2,324,467	3,069,248	8,245	5,401,960

(Expressed in Canadian dollars)

8. Goodwill

	December 31, 2023	September 30 2023
	$	$
Cost		
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 December 31, 2023, combined drawings under the operating loan facilities were $27,549,631 (September 30, 2023 - $26,109,074). 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 three months ended December 31, 2023, the Company incurred interest expense of $476,501 (December 31, 2022 - $411,367) on borrowings under its operating loan facilities. In addition, the Company has a $2,000,000 letter of guarantee facility, 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 December 31, 2023, the Company was not in compliance with the working capital ratio and the debt service coverage ratio covenants. It expects to receive a waiver of the breach of these covenants from its bank.

(Expressed in Canadian dollars)

10. Mortgage loans

	December 31, 2023
	$
Balance at September 30, 2023	**16,683,772**
Repayment of mortgage loans	**(72,217)**
Amortization of mortgage loans financing fees	**3,343**
Balance at December 31, 2023	**16,614,898**
Less: current portion of mortgage loans	**16,614,898**
Balance at December 31, 2023	**-**

	September 30, 2023
	$
Balance at September 30, 2022	9,608,228
Drawdown of mortgage loan	7,450,000
Repayment of mortgage loans	(281,613)
Mortgage loan financing costs	(100,539)
Amortization of mortgage loans financing fees	7,696
Balance at September 30, 2023	16,683,772
Less: current portion of mortgage loans	16,683,772
Balance at September 30, 2023	-

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 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 following which the interest rate will be adjusted to the BDC’s fixed rate then in effect. 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. Following an updated appraisal of the Company’s land and buildings in Saint-Laurent, Quebec, the BDC increased the Utility mortgage loan by $7,450,000 on August 18, 2023. This additional Utility financing 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 adjusted to the BDC’s fixed rate then in effect. Proceeds from this additional Utility financing were used to repay shareholder advances and to reduce operating loan advances. During the three months ended December 31, 2023, the Company recorded interest expense of $223,506 (December 31, 2022 - $101,491) on borrowings under its BDC mortgage loans. As at December 31, 2023, the Company was not in compliance with the fixed charge coverage ratio covenant for which it expects to receive a waiver from the BDC and has recorded these mortgage loans as a current liability on the consolidated statement of financial position at December 31, 2023.

(Expressed in Canadian dollars)

11. Long-term lease liabilities

	December 31, 2023
	$
Balance at September 30, 2023	**16,453,942**
Repayment of lease liabilities	**(567,772)**
Interest accretion	**197,649**
Effect of foreign exchange rates	**(71,143)**
Balance at December 31, 2023	**16,012,676**
Less: current portion of long-term lease liabilities	**1,611,175**
Balance at December 31, 2023	**14,401,501**

	September 30, 2023
	$
Balance at September 30, 2022	9,934,987
Leases added	7,998,693
Leases terminated	(177,490)
Repayment of lease liabilities	(2,088,770)
Interest accretion	807,159
Effect of foreign exchange rates	(20,637)
Balance at September 30, 2023	16,453,942
Less: current portion of long-term lease liabilities	1,575,249
Balance at September 30, 2023	14,878,693

During the three months ended December 31, 2023, the Company accreted interest expense of $197,649 (December 31, 2022 - $131,911) on its long term lease liabilities.

12. Due to minority partner

As part of the acquisition of Peerless in 2010, the Company and the minority partner entered into a put/call agreement 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.

(Expressed in Canadian dollars)

13. Capital stock

(a) Authorized

Unlimited number of the following classes of shares:

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

(b) Shares issued and fully paid

	Number of shares Common shares	Amount
		$
Balance, September 30, 2023 and September 30, 2022	19,012,228	30,447,488
Balance, December 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 April 3, 2023, 300,000 stock options were granted for a term of five years and vest over three years annually in arrears from the date in which they were granted.

On September 6, 2023, 160,000 stock options were granted for a term of five years and vest over five years annually in arrears from the date in which they were granted.

During the three months ended December 31, 2023, nil options were exercised (December 31, 2022 – nil) and nil options were forfeited (December 31, 2022 – 80,000).

The following table summarizes stock options outstanding:

	three months ended December 31, 2023		three months ended December 31, 2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of period	**1,815,000**	**2.08**	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	**-**	**-**	(690,000)	2.56
Outstanding, end of period	**1,815,000**	**2.08**	1,525,000	2.20

Based on the above vesting schedule, a stock option compensation expense of $75,093 was determined for the three months ended December 31, 2023, but due to a carry over forfeitures true-up, a stock option compensation expense of $nil was recognized for the three month period ended December 31, 2023 (December 31, 2022 - $nil). Option pricing models require the use of highly subjective estimates and assumptions, changes in which can materially affect the value estimates.

(Expressed in Canadian dollars)

14. Income taxes

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

	three months ended December 31 2023	three months ended December 31 2022
	$	$
Income tax expense (recovery)	**-**	-
Deferred tax expense (recovery)	**(270,343)**	201,102
Income tax expense (recovery)	**(270,343)**	201,102

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 December 31 2023	three months ended December 31 2022
	$	$
Net Income (loss) before income taxes	**(1,072,971)**	712,947
Tax rate	**26.2%**	26.2%
	(281,118)	186,792
Taxes attributable to minority partner	**(2,704)**	(933)
True-ups	**12,028**	14,353
Permanent differences	**1,451**	890
Income tax expense (recovery)	**(270,343)**	201,102

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

	December 31, 2023	September 30, 2023
	$	$
Deferred tax assets		
Available non-capital losses and other tax deductions	**7,385,427**	7,143,312
Deferred tax liabilities		
Property, plant and equipment	**(1,784,862)**	(1,813,090)
	5,600,565	5,330,222

The Company has non-capital losses of approximately $22,620,000 (September 30, 2023 - $21,723,000) 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 $6,107,000 (September 30, 2022 - $5,865,000) that is included in the deferred tax asset balance at December 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 December 31, 2023.

(Expressed in Canadian dollars)

15. Expenses by nature

	three months ended December 31 2023	three months ended December 31 2022
	$	$
Direct expenses:		
Materials	**13,922,809**	16,299,120
Wages and benefits	**2,352,337**	3,162,291
Delivery	**896,075**	2,043,293
Rent, utilities and other property costs	**518,310**	582,231
Subcontract fees	**356,791**	199,680
Insurance	**393**	4,381
Other	**30,273**	138,758
	18,076,988	22,429,754
General and administrative expenses:		
Wages and benefits	**2,118,607**	2,638,336
Data services, system maintenance, telecommunications and software licenses	**587,503**	624,593
Legal, bank, insurance and professional services	**432,494**	470,134
Rent, utilities and other property costs	**90,322**	85,928
Advertising, marketing and other promotion costs	**46,746**	67,853
Other	**410,197**	485,355
	3,685,869	4,372,199

16. Commitments and contingencies

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

17. Economic dependence

During the three month period ended December 31, 2023, revenue from the Canadian military and other Canadian governmental agencies accounted for 6% of total revenue (December 31, 2022 - 8%), and revenue from two airline industry customers accounted for 27% of total revenue (December 31, 2022 - 29%).

18. Segmented information

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

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

(Expressed in Canadian dollars)

18. Segmented information (continued)

				three months ended December 31 2023
	Peerless	UGL	Eliminations adjustments and corporate expenses	**Total**
	$	$	$	**$**
Revenue	2,492,396	20,565,074	(89,842)	**22,967,628**
Direct expenses	1,962,471	16,204,359	(89,842)	**18,076,988**
General and administrative expenses	388,338	3,169,154	128,377	**3,685,869**
Depreciation and amortization	9,236	1,261,583	109,267	**1,380,086**
	132,351	(70,022)	(237,644)	**(175,315)**
Interest expense	30,535	867,121	-	**897,656**
Net income before income taxes	101,816	(937,143)	(237,644)	**(1,072,971)**
Capital expenditures on property, plant and equipment	-	(111,797)	-	**(111,797)**
Capital expenditures on intangible assets	-	(720)	-	**(720)**
Total assets	10,612,341	86,881,456	12,062,046	**109,555,843**
Property, plant and equipment	810,273	7,402,738	-	**8,213,011**
Right of use assets	-	13,422,728	-	**13,422,728**
Intangible assets	-	4,786,482	-	**4,786,482**
Goodwill	2,586,000	3,798,797	-	**6,384,797**
Liabilities, excluding due to minority partner	6,228,653	83,567,316	-	**89,795,969**

(Expressed in Canadian dollars)

18. Segmented information (continued)

	Peerless	UGL	Eliminations adjustments and corporate expenses	three months ended December 31 2022 Total
	$	$	$	$
Revenue	2,580,443	26,413,036	(121,041)	28,872,438
Direct expenses	2,194,383	20,356,412	(121,041)	22,429,754
General and administrative expenses	304,455	3,921,775	145,969	4,372,199
Depreciation and amortization	10,788	989,805	109,454	1,110,047
	70,817	1,145,044	(255,423)	960,438
Interest expense	36,199	608,570	25,890	670,659
Gain on sale of New Jersey division		(423,168)	-	(423,168)
Share based payment	-	-	-	-
Net income before income taxes	34,618	959,642	(281,313)	712,947
Capital expenditures on property, plant and equipment	4,350	69,764	-	74,114
Capital expenditures on intangible assets	-	306,861	-	306,861
Total assets	9,528,258	90,663,470	12,013,184	112,204,912
Property, plant and equipment	2,596,344	5,531,124	-	8,127,468
Right of use assets	-	13,156,802	-	13,156,802
Intangible assets	-	7,085,150	-	7,085,150
Goodwill	2,586,000	3,798,797	-	6,384,797
Liabilities, excluding due to minority partner	5,288,410	76,342,614	-	81,631,024

The Company operates in two geographic segments as follows:

	three months ended December 31, 2023	three months ended December 31, 2022
	$	$
Revenue		
Canada	**19,394,091**	21,840,932
United States of America	**3,573,537**	7,031,506
	22,967,628	28,872,438
Total assets		
Canada	**96,593,396**	102,174,550
United States of America	**12,962,447**	10,030,362
	109,555,843	112,204,912