



Unisync Announces Its Decision to Withdraw From OCFC2 Bid

TORONTO, May 20, 2022 -- The global disruptions that are currently occurring and the concurrent meteoric rise in a number of key inflationary factors has resulted in the need to re-assess the economic feasibility of the large managed service opportunity that we have been pursuing with the Department of National Defence since it was first announced to the industry over a decade ago. Solicitation W8486-206245/A issued by Public Works and Government Services Canada is referred to as OCFC2, the acronym for the Operational Clothing and Footwear Contract for the Canadian armed forces. The contract, which is anticipated to be awarded in the next few months, involves an initial term of five years with multiple renewal provisions resulting in a potential term of twenty years and estimated gross revenues exceeding \$1 billion.

After much deliberation and analysis of the risks, we have concluded that OCFC2 as currently constructed does not provide an appropriate return on our invested capital and therefore have decided to withdraw our proposal that was formally submitted in August of 2021. We were hesitant to make this critical decision as we incurred significant management time and costs in positioning Unisync to respond to this opportunity. However, we were unanimous in our conclusion that the risks associated with this contract as constructed far outweighed the benefits to be derived.

The concept of a long-term fixed fee contract that commences about two years following bid submission is, in itself, a formidable obstacle to deal with in any environment. As prime contractor, we would be locked into a fixed rate management fee for the full duration of the contract, a rate which was established two years prior to the contract launch and which has already been significantly eroded as a result of soaring interest rates, the surging cost of wages combined with the reduced availability of workers, major increases in transportation costs and in property values and the resulting cost of warehousing. This challenge was further exacerbated due to the inclusion of value proposition commitments under the Industrial and Technological Benefits (ITB) Policy for the life of the contract, and the lack of a foreign exchange adjustment provision.

The contractual and financial risks also extend to our suppliers, most of whom are small cut-and-sew businesses, who would be locked into firm unit prices subject to adjustment for inflation tied to increases in the Consumer Price Index, an index not representative of the actual inflationary factors the industry is experiencing. We, as the prime contractor, would be required to have subcontractors provide supporting contractual long-term pricing commitments based on their assumptions of future fabric pricing, wage increases and other inflationary factors or, where preferred subcontractors refused to commit to pricing beyond some short-term period, we would have to absorb these key inflation risks ourselves. As a prime contractor, we felt we have a responsibility for the future viability of our suppliers and would find it counter-productive to hold small subcontractors to their pricing and supply commitments when doing so could put them out of business.

Providing advanced managed clothing solutions remains a core competency and strategic direction for Unisync and, as a Canadian owned public company, we remain committed to pursuing future managed clothing opportunities with the various departments and agencies of the Government of Canada. Similarly, Peerless Garments, our in-house Winnipeg based manufacturing subsidiary and major supplier to the Canadian Armed Forces for over 70 years, also looks forward to being of continued service to the Canadian Government.

We are confident that management, infrastructure, and capital resources previously required for the OCFC2 bid can be readily deployed to other attractive, lower risk managed workwear opportunities throughout North America.

On Behalf of the Board of Directors

Douglas F. Good
Executive Chairman

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