Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

(Unaudited)

January 31, 2022 and 2021

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and nine months ended January 31, 2022 and 2021
Unaudited
(in thousands of Canadian dollars except per share amounts)

	Note	Three Months Ended January 31, 2022	Three Months Ended January 31, 2021	Nine Months Ended January 31, 2022	Nine Months Ended January 31, 2021
		$		$	
SALES	10	**10,208**	11,625	**27,749**	30,152
COST OF GOODS SOLD	11	**8,738**	8,967	**23,465**	23,832
GROSS PROFIT		**1,470**	2,658	**4,284**	6,320
EXPENSES					
Selling, general and administrative	11	**5,156**	4,859	**14,927**	14,611
Unrealized loss (gain) on foreign exchange		**143**	(184)	**(35)**	111
Other expenses (income)	13	**1**	(610)	**(1,977)**	(3,392)
Unrealized loss (gain) on derivatives	7.2	**265**	(159)	**661**	(3,416)
Gain on disposal of property, plant and equipment and intangible assets		**(12,985)**	(232)	**(12,985)**	(232)
Interest expense (income)		**585**	-	**1,394**	(1)
		(6,835)	3,674	**1,985**	7,681
Income (loss) before taxes		**8,305**	(1,016)	**2,299**	(1,361)
Income tax expense		**3,467**	22	**3,470**	29
		3,467	22	**3,470**	29
NET INCOME (LOSS)		**$ 4,838**	(1,038)	**$ (1,171)**	(1,390)
Net earnings (loss) per share available to shareholders	9				
Basic		**$ 0.34**	(0.07)	**$ (0.08)**	(0.10)
Diluted		**$ 0.34**	(0.07)	**$ (0.08)**	(0.10)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the three and nine months ended January 31, 2022 and 2021

Unaudited

(in thousands of Canadian dollars)

	Note		Three Months Ended January 31,			Nine Months Ended January 31,	
			2022	2021		**2022**	2021
NET PROFIT (LOSS)		$	**4,838**	(1,038)	$	**(1,171)**	(1,390)
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that may be reclassified to earnings:							
Exchange gain (loss) on translating foreign operations			**80**	13		**73**	(122)
Other comprehensive income (loss)			**80**	13		**73**	(122)
TOTAL COMPREHENSIVE INCOME (LOSS)		$	**4,918**	(1,025)	$	**(1,098)**	(1,512)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited
(in thousands of Canadian dollars)

	Note	As at January 31, 2022	As at April 30, 2021
ASSETS			
Current			
Cash		**$ 14,594**	$ 3,736
Restricted cash		**3,181**	2,764
Trade and other receivables	4	**8,065**	5,887
Inventories	5	**4,603**	3,497
Note receivable		**39**	36
Assets held for sale	6.2	**12**	5,241
Prepaid expenses and other assets		**310**	543
Derivative financial assets	7.2	**14**	587
		30,818	22,291
Non-current			
Property, plant and equipment		**5,775**	5,479
Intangible assets		**948**	1,287
Right-of-use assets		**13,981**	10,050
Other assets		**2,699**	-
Derivative financial assets		**-**	19
Note receivable		**246**	266
Deferred income tax assets		**-**	2,580
		23,649	19,681
TOTAL ASSETS		**$ 54,467**	$ 41,972
LIABILITIES			
Current			
Revolving credit facility	12	**$ -**	$ 7,858
Trade and other payables		**9,922**	8,044
Lease liabilities		**1,590**	717
Derivative financial liabilities	7.2	**69**	-
Forgivable government loan		**-**	219
Provisions		**90**	226
		11,671	17,064
Non-current			
Retirement benefit obligation		**1,423**	1,083
Lease liabilities		**27,151**	9,342
Provisions		**422**	483
Other long-term obligations		**305**	164
Deferred income tax liabilities		**758**	-
		30,059	11,072
TOTAL LIABILITIES		**41,730**	28,136
SHAREHOLDERS' EQUITY			
Shareholders' capital	8	**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive income		**2,534**	2,462
Deficit		**(45,340)**	(44,169)
TOTAL SHAREHOLDERS' EQUITY		**12,737**	13,836
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 54,467**	$ 41,972

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

Approved by the Board of Directors,

(signed)
Bartley Bull
Chair

(signed)
Eric Ehgoetz
Director & Chief Executive Officer

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited
(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Cumulative Remeasurement of Retirement Benefit Obligation	Cumulative Translation Gain	Deficit	Total Shareholders' Equity
Balance, April 30, 2021	**$ 52,868**	**$ 2,675**	**$ 1,207**	**$ 1,255**	**$ (44,169)**	**$ 13,836**
Net loss	**-**	**-**	**-**	**-**	**(1,171)**	**(1,171)**
Other comprehensive income	**-**	**-**	**-**	**73**	**-**	**73**
Balance, January 31, 2022	**$ 52,868**	**$ 2,675**	**$ 1,207**	**$ 1,328**	**$ (45,340)**	**$ 12,738**
Balance, April 30, 2020	$ 52,868	$ 2,675	$ (4,984)	$ 1,396	$ (43,278)	$ 8,677
Net loss	-	-	-	-	(1,390)	(1,390)
Conversion of 3,345,881 multiple voting shares to subordinate shares for disposal	(237)	-	-	-	-	(237)
Issue of additional 3,345,881 subordinate shares on conversion of multiple voting shares on a 1:1 basis	237	-	-	-	-	237
Other comprehensive loss	-	-	-	(122)	-	(122)
Balance, January 31, 2021	$ 52,868	$ 2,675	$ (4,984)	$ 1,274	$ (44,668)	$ 7,165

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended January 31, 2022 and 2021
Unaudited
(in thousands of Canadian dollars)

	Note	Three Months Ended January 31, 2022	Three Months Ended January 31, 2021	Nine Months Ended January 31, 2022	Nine Months Ended January 31, 2021
Net inflow (outflow) of cash related to the following activities:					
OPERATING					
Net income (loss)		$ **4,838**	(1,038)	$ **(1,171)**	(1,390)
Items not affecting cash					
Amortization and depreciation		**714**	1,012	**2,076**	3,054
Interest expense and other fees		**610**	90	**1,407**	170
Amortization of deferred financing fees		**177**	-	**314**	-
Unrealized loss (gain) on derivatives		**265**	(159)	**661**	(3,416)
Share-based compensation		**42**	(5)	**164**	197
Unrealized loss (gain) on foreign exchange		**194**	(184)	**(36)**	111
Non-cash portion of other income		**11**	-	**(219)**	(1,187)
Disposal of property plant and equipment, right-of-use assets & intangible assets		**(12,985)**	(199)	**(12,985)**	(199)
Retirement benefit obligation expense (recovery) net of employer contributions		**60**	(20)	**339**	95
Deferred income tax expense		**3,338**	-	**3,338**	-
Cash used in operating activities before non-cash working capital		**(2,736)**	(503)	**(6,112)**	(2,565)
Movements in non-cash working capital					
Trade and other receivables		**(1,816)**	(1,625)	**(2,079)**	1,563
Inventories		**395**	871	**(1,059)**	1,916
Prepaid expenses and other assets		**(2,415)**	199	**(2,454)**	97
Trade and other payables		**893**	517	**1,837**	(2,697)
Lease liabilities		**(277)**	(241)	**(276)**	(359)
Provisions		**(102)**	(142)	**(211)**	(227)
Income tax receivable and payable		**-**	20	**-**	-
Changes in non-cash operating items		**(3,322)**	(401)	**(4,242)**	293
Interest payments		**(930)**	(87)	**(1,362)**	(170)
Restricted shares settled		**-**	(27)	**(23)**	(36)
Cash used in operating activities		**(6,988)**	(1,018)	**(11,739)**	(2,478)
INVESTING					
Proceeds from loan receivable		**(1)**	-	**27**	-
Proceeds from disposal of property, plant and equipment		**32,206**	252	**32,206**	252
Additions to property, plant and equipment		**(140)**	(129)	**(1,059)**	(797)
Cash generated from (used in) investing activities		**32,065**	123	**31,174**	(545)
FINANCING					
Proceeds from revolving credit facility		**11,935**	-	**20,029**	-
Payment of revolving credit facility		**(23,094)**	-	**(28,160)**	-
Payment of financing fees		**-**	-	**(142)**	-
Principal portion of lease liabilities		**(196)**	(413)	**(470)**	(1,385)
Cash used in financing activities		**(11,355)**	(413)	**(8,743)**	(1,385)
Unrealized foreign exchange (gain) loss on cash		**(76)**	76	**166**	(250)
Net cash inflow (outflow)		**13,646**	(1,232)	**10,858**	(4,658)
Cash, beginning of period		**948**	2,459	**3,736**	5,885
Cash, end of period		$ **14,594**	1,227	**14,594**	1,227

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

1. GENERAL INFORMATION

Inscape Corporation (the "Company") is a limited company incorporated in Ontario, Canada, with Class B common shares listed on the Toronto Stock Exchange (TMX). The Company's registered office is at 67 Toll Road, Holland Landing, Ontario.

The Company is an office furniture manufacturer with production at two facilities, an approximately 313,000 square feet plant in Holland Landing, and a 30,000 square feet plant in Jamestown, New York, USA. The Company serves its clients through a network of dealers and representatives supported by showrooms across North America.

The Company reports in two reportable operating segments - the Furniture segment which includes storage, benching, systems and seating products, and the Walls segment which includes architectural and movable walls.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS including comparatives
The accompanying unaudited interim consolidated financial statements (the "financial statements")have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The financial statements were approved and authorized for issuance by the Board of Directors (the "Board") of the Company on March 10, 2022.

The financial statements are presented in Canadian dollars, the functional currency of the Company, and all values are rounded to the nearest thousands, except where indicated.

Basis of consolidation
The financial statements include the accounts of the Company and its two wholly owned US subsidiaries, Inscape Inc. and Inscape (New York) Inc. Subsidiaries are consolidated from the date of acquisition and control and continue to be consolidated until the date that such control ceases. The Company controls an entity when the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through the Company's power over the investee. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Sale of manufactured goods

The Company's revenue is generated from sale and installation of manufactured goods to customers through a dealer network. For manufactured goods, revenue is recognized when the goods are shipped and control of the assets passes to the customer. The Company's terms and condition state that control of the assets transfers at shipping point. This is where the customer gains control of the asset.

Revenue from installation is recognized on the percentage of completion based on the physical stage of completion of the contract. This output method is the best measure of progress as the nature of the products installed enable measurement to be reliably observed.

The Company invoices the customer as the installation occurs. The payments are received as per normal payment terms established with the customer.

Revenue from the sale of and installation manufactured goods is measured at fair value of the consideration received less applicable sales taxes, discounts, rebates and dealer incentives. Sales-related warranties associated with the sale and installation of manufactured goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Company accounts for warranties in accordance with IAS 37.

Dealer incentives

The Company offers a variety of incentives to its dealer base to support sales initiatives. An obligation arises from the incentives when the Company sells manufactured goods and/or installations through the dealer network. The obligation is measured at fair value of the incentive earned. The dealer incentives are recorded as a reduction to revenue in the interim consolidated statement of operations.

Restricted cash

Restricted cash refers to cash reserved for a specific purpose, preventing its use by the Company for general business activities.

Restricted cash consists of cash held by the Company on deposit with its bank, as collateral security for certain derivative financial instruments, US$2,250.

The company has US$250 restricted cash to support a letter of credit required for the Chicago showroom.

Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for immediate sale in their present condition. Management must also be committed to a plan to sell the assets within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell and are not depreciated from the date of classification.

Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in other income on a systematic basis over the periods in which the Company incurs expenses for the related costs for which the grants are intended to compensate.

When a government loan is issued to the Company at below-market rate of interest, the loan is initially recorded at its net present value and accreted to its face value over the period of the loan. The benefit of the below-market rate of interest is accounted for as a government grant. It is measured as the difference between the initial carrying value of the loan and the cash proceeds received.

(in thousands of Canadian dollars, except where indicated and per share amounts)

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New standards, interpretations and amendments adopted by the Company
There were no new standards, interpretations or amendments that had a material impact to the Company's consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(b) Standards issued but not yet effective
There are no new standards issued but not yet effective as at January 1, 2022 that have a material impact to the Company's consolidated financial statements.

4. TRADE AND OTHER RECEIVABLES

	As at January 31, 2022	As at April 30, 2021
Trade accounts receivable, gross	**$ 7,201**	$ 5,323
Allowance for expected credit losses	**(10)**	(45)
	7,191	5,278
Other receivables	**874**	609
	$ 8,065	$ 5,887

An aging analysis of trade accounts receivable:

	As at January 31, 2022	As at April 30, 2021
Current	**$ 2,482**	$ 2,394
1-30 days	**701**	1,189
31-60 days	**760**	230
61-90 days	**1,943**	257
> 90 days	**1,315**	1,253
	$ 7,201	$ 5,323

5. INVENTORIES

	As at January 31, 2022	As at April 30, 2021
Raw materials	**$ 3,545**	$ 3,153
Work-in-progress	**279**	174
Finished goods	**779**	170
	$ 4,603	$ 3,497

During the quarter, there was an inventory write-down of $206 (2021 - $318) and $333 for the nine-month period ended January 31, 2022 (2021 - $1,350).

(in thousands of Canadian dollars, except where indicated and per share amounts)

6. HOLLAND LANDING SALE AND LEASEBACK TRANSACTION

6.1 Sale and Leaseback
On January 25, 2022, the Company completed a sale and leaseback of the land and buildings (“the property”) at 67 Toll Road in Holland Landing, Ontario to an unrelated party. The property, which was included in assets held for sale immediately prior to sale, had a carrying value of $5,237. The leaseback resulted in the recognition of right-of-use assets of $2,715 and lease liabilities of $16,699. The right-of-use assets reflects the proportion of the property, plant and equipment retained for a period of ten years, with two five-year extension periods. The lease liability reflects the net present value of future lease payments. The sale generated cash proceeds of $32,750 and resulted in a net gain of $12,985.

6.2 Assets Held For Sale
Following the sale and leaseback of the property at 67 Toll Road, assets held for sale of $12 remained as at January 31, 2022 representing the parcel of land at 70 Toll Road.

6.3 Tax Implications
For the three and nine months ended January 31, 2022, the Company's effective income tax rate decreased from the customary tax rate primarily due to a reduction in deferred tax assets associated with Canadian non-capital losses that were fully utilized as a result of this transaction.

The full tax impact of this transaction will be reflected in the year end financial statements.

7. FINANCIAL INSTRUMENTS

7.1 Capital risk management
The Company’s objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders through growth in earnings.

Management defines capital as the Company’s total capital, debt and reserves, excluding accumulated other comprehensive (loss) income as summarized in the following table:

	As at January 31, 2022	As at April 30, 2021
Issued capital	**$ 52,868**	$ 52,868
Contributed surplus	**2,675**	2,675
Debt(1)	**-**	(8,005)
Deficit	**(45,340)**	(44,169)
Total	**$ 10,203**	$ 3,369

(1) Revolving credit facility debt excludes deferred financing charges totaling $161 (Note 12).

The Company manages its capital structure and makes modifications in response to changes in economic conditions and the risks associated with the underlying strategic initiatives. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, or draw on any future credit facility negotiated.

(in thousands of Canadian dollars, except where indicated and per share amounts)

7.2 Foreign currency risk management

The Company's activities expose it primarily to the financial risks of changes in the US dollar exchange rates. The Company enters into a variety of derivative financial instruments to hedge the exchange rate risk arising on the anticipated sales to the US. The use of financial derivatives is governed by the Company's policies approved by the Board. Compliance with policies and exposure limits is reviewed by the Board on a regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

As at January 31, 2022, the Company had outstanding US dollar hedge contracts with settlement dates from February 2022 to June 2022. The total notional amounts under the contracts is US$5,250 to $8,400 (2021 - $13,000 to $20,800). Dependent on the spot CAD/US rate on each settlement date, the Company can sell US dollars at rates ranging from $1.220 CAD/US to $1.325 CAD/US (2021 - $1.270 CAD/US to $1.400 CAD/US). These contracts had a mark-to-market unrealized loss of $55 (US$43) as at January 31, 2022 (2021– unrealized gain of $25 or US$19), which was recognized on the consolidated statement of financial position as derivative financial assets. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the US currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the interim consolidated statement of operations as unrealized gain or loss on derivatives for the period. There were realized gains of $24 on the settlement of contracts during the three months ended January 31, 2022 (2021 – gains $95) and realized gain of $248 for the nine months ended January 31, 2022 (2021 - $157).

The following reconciles the changes in the fair value of the derivatives at the beginning and the end of the period:

	As at January 31, 2022	As at January 31, 2021
Fair value of derivative assets (liabilities), beginning of period	**$ 606**	$ (3,391)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	**(69)**	(762)
Reversal of derivative (assets) liabilities of contracts settled	**(53)**	681
(Decrease) increase in fair values of outstanding contracts	**(539)**	3,497
Net (increase) decrease in fair value of derivative assets and liabilities recognized during the period	**(661)**	3,416
Fair value of derivative (liabilities) assets, end of period	**$ (55)**	$ 25
Assets		
Current	**$ 14**	$ 202
	14	202
Liabilities		
Current	**$ (69)**	$ (107)
Non-current	**-**	(70)
	(69)	(177)
	$ (55)	$ 25

(in thousands of Canadian dollars, except where indicated and per share amounts)

7.3 Foreign currency sensitivity analysis

Based on the existing average US currency hedge contract rates and the mix of US dollar denominated sales and expenses for the third quarter ended January 31, 2022, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately $31 on the Company's pre-tax earnings (2021 – $39).

Based on the US dollar denominated assets and liabilities as at January 31, 2022, a 1% change in the Canadian dollar against the US dollar would have an impact of $329 on the unrealized exchange gain or loss reported in the interim consolidated statements of operations (2021 - $305) and an impact of $179 on the interim consolidated statements of comprehensive loss (2021 - $187).

7.4 Credit risk management

Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss to the Company. The credit risk of counterparty non-performance continues to be relatively low, notwithstanding the impact of COVID-19. The Company's cash, restricted cash, trade accounts receivable, loan receivable and derivative assets are subject to the risk that the counterparties may fail to discharge their obligation to pay the Company. As at January 31, 2022, the Company's maximum direct exposure to credit risk is $28,838 (April 30, 2021 – $13,153).

The Company is in regular contact with its customers, suppliers and logistics providers, and to date have not experienced significant counterparty non-performance. However, if a key supplier (or any company within such supplier's supply chain) or customer experiences financial difficulties or fails to comply with their contractual obligations, which may occur as the pandemic continues, this could result in a significant financial loss. The Company would also suffer significant financial loss if an institution from which the Company purchased foreign exchange contracts and/or annuities for its pension plans defaults on their contractual obligations. With respect to its financial market activities, the Company has adopted a policy of dealing only with credit-worthy counterparties. In light of COVID-19, the Company assessed the financial stability and liquidity of its customers at the reporting date. No significant adjustments were made to the allowance for expected credit loss ("ECL") in connection with this assessment.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable, assessing specific customer information and reviewing general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at January 31, 2022, the allowance for ECL was $10 (April 30, 2021 - $45).

The Company's allowance for ECL consist of sales allowances released during the year of $25 (April 30, 2021 – $126) mainly from adjustments to expected lifetime credit losses. The amount written-off of $11 (April 30, 2021 - $38) was uncollectible from a single customer. Below is a breakdown of the Company's ECL:

Movement in the allowance for ECL	**As at January 31, 2022**	As at April 30, 2021
Balance, beginning of period	**$ 45**	$ 216
Sales allowances adjustments	**(25)**	(126)
Amount written-off	**(11)**	(38)
Currency exchange	**1**	(7)
Balance, end of period	**$ 10**	$ 45

(in thousands of Canadian dollars, except where indicated and per share amounts)

7.5 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. The Company is exposed to liquidity risk primarily as a result of its lease liabilities and trade and other payables. The Company continuously reviews both actual and forecasted cash flows to ensure there is appropriate liquidity capacity.

The primary source of liquidity is funds generated by operating activities (the Company now relies on the net proceeds from the sale of the Holland Landing property as a source of funds for short-term working capital needs.)

With the proceeds from the sale of Holland Landing property the company has additional source of short-term working capital.

Upon the sale of the Holland Landing property, the Company repaid in full and exited its previous revolving credit facility. See Note 6, above for more details.

The expected maturities of our undiscounted financial liabilities, do not differ significantly from the contractual maturities, other than as noted below.

The following table summarizes contractual undiscounted future cash flow requirements as at January 31, 2022:

	2022	2023	2024	2025	2026	Thereafter	Total
Trade and other payables	$ 9,920	$ -	$ -	$ -	$ -	$ -	$ 9,920
Lease liabilities	3,180	3,945	3,818	3,781	3,858	20,246	38,828
Total contractual obligations	**$ 13,100**	**$ 3,945**	**$ 3,818**	**$ 3,781**	**$ 3,858**	**$ 20,246**	**$ 48,748**

The Company expects to meet its other obligations from primarily from operating cash flows, proceeds of maturing financial assets and, to a limited extent, the net proceeds from the sale of the Holland Landing property.

7.6 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in thousands of Canadian dollars, except where indicated and per share amounts)

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at January 31, 2022:

	Level 1	Level 2	Level 3
Derivative financial assets	$ -	$ 14	$ -
Derivative financial liabilities	-	(69)	-
Total net financial liabilities	**$ -**	**$ (55)**	**$ -**

The following table illustrates the classification of financial assets in the fair value hierarchy as at April 30, 2021:

	Level 1	Level 2	Level 3
Derivative financial assets	$ -	$ 606	$ -
Total net financial assets	$ -	$ 606	$ -

There were no transfers between Level 1, 2 and 3 in the periods.

8. ISSUED CAPITAL

Authorized
Unlimited Class B subordinated voting shares, 1 vote per share

	As at January 31, 2022	As at April 30, 2021
Issued and outstanding		
Class B subordinated voting	**14,380,701**	14,380,701
	14,380,701	14,380,701

9. EARNINGS (LOSS) PER SHARE

The net income (loss) and weighted average number of shares used in the calculation of basic and diluted earnings (loss) earnings per share are as follows:

	Three Months Ended January 31,		**Nine Months Ended January 31,**	
	2022	2021	**2022**	2021
Net income (loss) attributable to Common Shareholders	**$ 4,838**	(1,038)	**$ (1,171)**	(1,390)
Weighted average number of shares outstanding:				
Basic	**14,380,701**	14,380,701	**14,380,701**	14,380,701
Dilutive effect of Stock Options	**33,983**	-	**-**	-
Diluted	**14,414,684**	14,380,701	**14,380,701**	14,380,701
Net earnings (loss) per Common Share (basic)	**0.34**	(0.07)	**(0.08)**	(0.10)
Net earnings (loss) per Common Share (diluted)	**0.34**	(0.07)	**(0.08)**	(0.10)

For the nine-month period ended January 31, 2022, diluted earnings per Common Share excluded 33,979 Common Shares issuable under the Company's Incentive Stock Option Plan (2021 – 30,556 for three-month period, 75,554 for the nine-month period) because the effect of including them would have been anti-dilutive.

(in thousands of Canadian dollars, except where indicated and per share amounts)

10. SEGMENTED REPORTING

The Company's reportable segments are Furniture and Walls. Aggregated in the Furniture segment are systems, benching, storage and seating. The aggregation is based on the similarity in those products' functionalities, production or procurement process and method of distribution. Walls is a separate segment on its own due to the different nature of movable walls compared to furniture, the production process and the installation services involved in the selling of movable walls.

The following is an analysis of the Company's revenue and results from continuing operations by reportable segments:

	Three Months Ended January 31,			Nine Months Ended January 31,		
		2022	2021		**2022**	2021
Segmented sales						
Furniture	$	**8,192**	9,713	$	**20,261**	23,029
Walls		**2,016**	1,912		**7,488**	7,123
	$	**10,208**	11,625	$	**27,749**	30,152

	Three Months Ended January 31,			Nine Months Ended January 31,		
		2022	2021		**2022**	2021
Segmented income (loss)						
Furniture	$	**(2,605)**	(1,305)	$	**(7,990)**	(5,083)
Walls		**(1,081)**	(896)		**(2,653)**	(3,208)
	$	**(3,686)**	(2,201)	$	**(10,643)**	(8,291)
Unrealized (loss) gain on foreign exchange		**(143)**	184		**35**	(111)
Unrealized (loss) gain on derivatives		**(265)**	159		**(661)**	3,416
Other (expense) income		**(1)**	610		**1,977**	3,392
Gain on disposal of property, plant and equipment and intangible assets		**12,985**	232		**12,985**	232
Interest expense (income)		**(585)**	-		**(1,394)**	1
Income (loss) before taxes		**8,305**	(1,016)		**2,299**	(1,361)
Income tax expense		**(3,467)**	(22)		**(3,470)**	(29)
Net income (loss)	$	**4,838**	(1,038)	$	**(1,171)**	(1,390)

11. SUPPLEMENTAL INFORMATION

11.1 Salaries, wages and benefits

	Three Months Ended January 31,			Nine Months Ended January 31,		
		2022	2021		**2022**	2021
Included in:						
Cost of goods sold	$	**2,625**	2,967	$	**7,516**	7,622
Selling, general and administrative		**2,504**	2,635		**7,875**	7,986
	$	**5,129**	5,602	$	**15,391**	15,608

(in thousands of Canadian dollars, except where indicated and per share amounts)

11.2 Amortization and depreciation

	Three Months Ended January 31,			Nine Months Ended January 31,		
		2022	2021		**2022**	2021
Included in:						
Cost of goods sold	$	**236**	329	$	**699**	1,048
Selling, general and administrative		**478**	683		**1,378**	2,006
	$	**714**	1,012	$	**2,077**	3,054

12. CREDIT FACILITY

On April 29, 2021 the Company closed its revolving committed credit facility with FrontWell Capital Partners Inc.. The facility provided credit availability of the lesser of $16,000 and availability pursuant to the Borrowing Base calculation representing accounts receivable, inventories, land and building, with a maturity date which was the earlier of (i) April 29, 2022, and (ii) the completion of the sale of the property classified as assets held for sale (see Note 6). The interest rate on the demand operating credit facility was Prime Rate plus 8.75% for Canadian dollar loans, US Base Rate plus 8.75% for US dollar loans. The agreement is secured by the Company's accounts receivable, inventories, land and building (borrowing base).

On January 25, 2022, the Company repaid all amounts owing under the credit facility. As at January 31, 2022 the Company had no credit agreement in place.

13. GOVERNMENT ASSISTANCE

In response to the COVID-19 pandemic, the Company received a United States government unsecured forgivable loan in two tranches, with a 1.00% per annum interest rate, repayable over 24 months. Tranche 1 was forgiven as of the end of fiscal 2021.

Tranche 2 for $1,800 (US $1,390) was received during the fourth quarter of fiscal 2021, and is expected to be forgiven subject to the terms of the Paycheck Protection Program. The loan will be forgivable if all employees are maintained on the payroll for eight weeks and the money is used for payroll, benefits, rent or utilities.

In addition, the Company applied for and received grants from the Canadian government under the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs. These assistance programs from the Canadian government ended on October 23, 2021.

For the nine months ended January 31, 2022, the Company incurred CEWS qualifying expenditures of $1,623 (2021 – $2,111), of which net subsidies of $1,623 (2021 - $2,305) were received and an accrual of $nil (2021 – $194) was receivable in future periods.

	Three Months Ended January 31,			Nine Months Ended January 31,		
		2022	2021		**2022**	2021
Other income during the period:						
Government assistance:						
SBA forgivable loan	$	**-**	-	$	**(256)**	(1,292)
CEWS		**-**	(602)		**(1,623)**	(2,111)
Other		**1**	(8)		**(98)**	11
	$	**1**	(610)	$	**(1,977)**	(3,392)

(in thousands of Canadian dollars, except where indicated and per share amounts)

14. RELATED PARTY TRANSACTIONS

The following was the remuneration of directors and other members of key management personnel, including the Chief Executive Officer, Chief Financial Officer, VP Marketing & Product Development, SVP Sales and Distribution, VP Manufacturing & Supply Chain.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	**2022**	2021
Salaries and short-term benefits	$ **417**	607	$ **1,460**	1,403
Post-employment benefits	**-**	5	**4**	16
Share-based compensation	**42**	(3)	**164**	199
	$ **459**	609	$ **1,628**	1,618

15. SUBSEQUENT EVENTS

On February 3, 2022, the Company entered into an agreement to sell the surplus property at 70 Toll Road, East Gwillimbury, Ontario to an unrelated purchaser. The purchase price is $1,500. This transaction is expected to close on May 31, 2022.

16. COMPARATIVE FINANCIAL STATEMENTS

Certain figures in the comparative financial statements have been reclassified since statements previously presented to conform to the presentation of the current period’s financial statements.