Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

(Unaudited)

October 31, 2021 and 2020

INSCAPE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended October 31, 2021 and 2020
Unaudited
(in thousands of Canadian dollars, except where indicated and per share amounts)

	Note	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020	Six Months Ended October 31, 2021	Six Months Ended October 31, 2020
SALES	9	$ **9,683**	7,157	$ **17,541**	18,527
COST OF GOODS SOLD	10	**7,476**	6,925	**14,727**	14,865
GROSS PROFIT		**2,207**	232	**2,814**	3,662
EXPENSES					
Selling, general and administrative	10	**5,086**	5,107	**9,771**	9,752
Unrealized (gain) loss on foreign exchange		**(79)**	(39)	**(178)**	295
Other income	12	**(598)**	(589)	**(1,978)**	(2,782)
Unrealized (gain) loss on derivatives	6.2	**(24)**	(519)	**396**	(3,257)
Interest expense (income)		**443**	(1)	**809**	(1)
		4,828	3,959	**8,820**	4,007
Loss before taxes		**(2,621)**	(3,727)	**(6,006)**	(345)
Income tax expense		**2**	5	**3**	7
		2	5	**3**	7
NET LOSS		$ **(2,623)**	(3,732)	$ **(6,009)**	(352)
Net loss per share available to shareholders	8				
Basic		$ **(0.18)**	(0.26)	$ **(0.42)**	(0.02)
Diluted		$ **(0.18)**	(0.26)	$ **(0.42)**	(0.02)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the three and six months ended October 31, 2021 and 2020

Unaudited

(in thousands of Canadian dollars)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2021	2020	**2021**	2020
NET LOSS	$ **(2,623)**	(3,732)	$ **(6,009)**	(352)
OTHER COMPREHENSIVE LOSS				
Items that may be reclassified to earnings				
Exchange loss on translation of foreign operations	**(28)**	(38)	**(7)**	(135)
Other comprehensive loss	**(28)**	(38)	**(7)**	(135)
TOTAL COMPREHENSIVE LOSS	$ **(2,651)**	(3,770)	$ **(6,016)**	(487)

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 October 31, 2021	As at April 30, 2021
ASSETS			
Current assets			
Cash		**$ 948**	$ 3,736
Restricted cash		**2,787**	2,764
Trade and other receivables	3	**6,181**	5,887
Inventories	4	**4,970**	3,497
Note receivable		**37**	36
Assets held for sale	5	**5,249**	5,241
Prepaid expenses and other assets		**577**	543
Derivative financial assets		**235**	587
		20,984	22,291
Non-current assets			
Property, plant and equipment		**5,874**	5,479
Intangible assets		**1,045**	1,287
Right-of-use assets		**9,490**	10,050
Derivative financial assets		**-**	19
Note receivable		**249**	266
Deferred tax assets		**2,580**	2,580
		19,238	19,681
TOTAL ASSETS		**$ 40,222**	$ 41,972
LIABILITIES			
Current liabilities			
Revolving credit facility	11	**$ 11,273**	$ 7,858
Trade and other payables		**8,998**	8,044
Lease liabilities		**963**	717
Derivative financial liabilities	6.2	**25**	-
Forgivable government loan		**-**	219
Provisions		**106**	226
		21,365	17,064
Non-current liabilities			
Retirement benefit obligation		**1,363**	1,083
Lease liabilities		**8,913**	9,342
Provisions		**499**	483
Other long-term obligations		**262**	164
		11,037	11,072
TOTAL LIABILITIES		**32,402**	28,136
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive income		**2,455**	2,462
Deficit		**(50,178)**	(44,169)
TOTAL SHAREHOLDERS' EQUITY		**7,820**	13,836
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 40,222**	$ 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 (Loss)	Deficit	Total Shareholders' Equity
Balance, April 30, 2021	**$ 52,868**	**$ 2,675**	**$ 1,207**	**$ 1,255**	**$ (44,169)**	**$ 13,836**
Net loss	**-**	**-**	**-**	**-**	**(6,009)**	**(6,009)**
Other comprehensive loss	**-**	**-**	**-**	**(7)**	**-**	**(7)**
Balance, October 31, 2021	**$ 52,868**	**$ 2,675**	**$ 1,207**	**$ 1,248**	**$ (50,178)**	**$ 7,820**
Balance, April 30, 2020	$ 52,868	$ 2,675	$ (4,984)	$ 1,396	$ (43,278)	$ 8,677
Net loss	-	-	-	-	(352)	(352)
Other comprehensive loss	-	-	-	(135)	-	(135)
Balance, October 31, 2020	$ 52,868	$ 2,675	$ (4,984)	$ 1,261	$ (43,630)	$ 8,190

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 six months ended October 31, 2021 and 2020
Unaudited
(in thousands of Canadian dollars)

	Note	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020	Six Months Ended October 31, 2021	Six Months Ended October 31, 2020
Net outflow of cash related to the following activities:					
OPERATING					
Net loss		$ **(2,623)**	(3,732)	$ **(6,009)**	(352)
Items not affecting cash					
Amortization and depreciation		**677**	1,030	**1,362**	2,042
Interest expense and other fees		**451**	38	**797**	80
Amortization of deferred financing fees		**83**	-	**137**	-
Unrealized (gain) loss on derivatives	6.2	**(24)**	(519)	**396**	(3,257)
Share-based compensation		**15**	212	**122**	202
Unrealized (gain) loss on foreign exchange		**(79)**	(39)	**(178)**	295
Non-cash portion of other income		**(5)**	-	**(230)**	(1,187)
Retirement benefit obligation expense net of employer contributions		**145**	126	**279**	115
Cash used in operating activities before non-cash working capital		**(1,360)**	(2,884)	**(3,324)**	(2,062)
Movements in non-cash working capital					
Trade and other receivables		**(409)**	(354)	**(263)**	3,188
Inventories		**(635)**	73	**(1,454)**	1,045
Assets held for sale		**(10)**	-	**(10)**	-
Prepaid expenses and other assets		**227**	(74)	**(29)**	(102)
Trade and other payables		**1,147**	599	**944**	(3,234)
Lease liabilities		**(1)**	(17)	**1**	(118)
Provisions		**(102)**	15	**(109)**	(85)
Changes in non-cash operating items		**217**	242	**(920)**	694
Interest payments		**(310)**	(37)	**(432)**	(83)
Restricted shares settled		**-**	-	**(23)**	(9)
Cash used in operating activities		**(1,453)**	(2,679)	**(4,699)**	(1,460)
INVESTING					
Proceeds from loan receivable		**14**	-	**28**	-
Additions to property, plant and equipment		**(790)**	(535)	**(919)**	(668)
Cash used in investing activities		**(776)**	(535)	**(891)**	(668)
FINANCING					
Proceeds from revolving credit facility		**6,844**	-	**8,094**	-
Payment of revolving credit facility		**(5,031)**	-	**(5,066)**	-
Payment of financing fees		**(142)**	-	**(142)**	-
Principal portion of lease liabilities		**(132)**	(386)	**(274)**	(972)
Cash generated from (used in) financing activities		**1,539**	(386)	**2,612**	(972)
Unrealized foreign exchange loss (gain) on cash		**41**	26	**190**	(326)
Net cash outflow		**(649)**	(3,574)	**(2,788)**	(3,426)
Cash, beginning of period		**1,597**	6,033	**3,736**	5,885
Cash, end of period		$ **948**	2,459	**948**	2,459

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 308,000 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

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, interim financial reporting as issued by the International Accounting Standards Board ("IASB") using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements.

These interim condensed consolidated financial statements were prepared on a going concern assumption using the historical cost basis except for financial instruments. These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on December 9, 2021.

The interim consolidated financial statements are presented in Canadian dollars, the functional currency of Inscape, and all values are rounded to the nearest thousands, except where indicated. Certain comparative amounts have been restated to conform to the presentation adopted in the current period.

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.

Standards issued and not yet adopted

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, "Presentation of Financial Statements"). The limited amendment affects only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition. Specifically, it clarifies:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least 12 months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- that "settlement" refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of this narrow-scope amendment.

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. Revenue is recognized when 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.

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.

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

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.

3. TRADE AND OTHER RECEIVABLES

	As at October 31, 2021	As at April 30, 2021
Trade account receivables, gross	**$ 6,107**	$ 5,323
Allowance for expected credit losses	**(7)**	(45)
	6,100	5,278
Other receivables	**81**	609
	$ 6,181	$ 5,887

An aging analysis of trade receivables:

	As at October 31, 2021	As at April 30, 2021
Current	**$ 2,654**	$ 2,394
1-30 days	**1,167**	1,189
31-60 days	**948**	230
61-90 days	**204**	257
> 90 days	**1,134**	1,253
	$ 6,107	$ 5,323

4. INVENTORIES

	As at October 31, 2021	As at April 30, 2021
Raw materials	**$ 3,758**	$ 3,153
Work-in-progress	**226**	174
Finished goods	**986**	170
	$ 4,970	$ 3,497

During the quarter, there was an inventory write-down of $87 (2020 - $602) and $122 for the six-month period ended October 31, 2021 (2020 - $689).

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

5. ASSETS HELD FOR SALE

As of March 24, 2021, the Company intends to enter into an agreement to sell and lease back the land and building at the Holland Landing location within the next twelve months.

As at April 30, 2021, the non-current assets have been reclassified as assets held for sale on the consolidated statements of financial position (see Note 2). This property is part of the reportable Furniture segment.

6. FINANCIAL INSTRUMENTS

6.1 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 October 31, 2021	As at April 30, 2021
Issued capital	**$ 52,868**	$ 52,868
Contributed surplus	**2,675**	2,675
Debt[(1)]	**(11,409)**	(8,005)
Deficit	**(50,178)**	(44,169)
Total	**$ (6,044)**	$ 3,369

(1) Revolving credit facility debt excludes deferred financing charges totaling $136 (Note 11).

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 its revolving credit facility.

See Credit Facility - Note 11 for a description of the Company's externally imposed covenants.

6.2 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 October 31, 2021, the Company had outstanding US dollar hedge contracts with settlement dates from November 2021 to June 2022. The total notional amounts under the contracts are US$8,500 to $13,600 (2020 - $13,000 to $16,250). Dependent on the spot CAD/US rate on each settlement date, the Company can sell US dollars at rates ranging from $1.22 CAD/US to $1.33 CAD/US (2020 - $1.30 CAD/US to $1.41 CAD/US). These contracts had a mark-to-market unrealized gain of $210 (US$170) as at October 31, 2021 (2020– unrealized loss of $134 or US$101), which was recognized on the interim consolidated statement of financial position as derivative asset. 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 of the year. There were realized gains of $41 on the settlement of contracts during the three months ended October 31, 2021 (2020 – losses $nil) and realized gains of $224 for the six months ended October 31, 2021 (2020 - $251).

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

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

	As at October 31, 2021	As at October 31, 2020
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	**(24)**	(787)
Reversal of derivative (assets) liabilities of contracts settled	**(68)**	665
(Decrease) increase in fair values of outstanding contracts	**(304)**	3,379
Net (decrease) increase in fair value of derivative assets recognized during the period	**(396)**	3,257
Fair value of derivative assets (liabilities), end of period	**$ 210**	$ (134)
Assets		
Current	**$ 235**	$ -
Non-current	**-**	-
	235	-
Liabilities		
Current	**$ (25)**	$ (134)
Non-current	**-**	-
	(25)	(134)
	$ 210	$ (134)

6.3 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 second quarter ended October 31, 2021, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately $22 on the Company's pre-tax earnings (2020 – $25).

Based on the US dollar denominated assets and liabilities as at October 31, 2021, a 1% change in the Canadian dollar against the US dollar would have an impact of $316 on the unrealized exchange gain or loss reported in the interim consolidated statements of operations (2020 - $306) and an impact of $166 on the interim consolidated statements of comprehensive loss (2020 - $182).

6.4 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 October 31, 2021, the Company's maximum direct exposure to credit risk is $10,437 (April 30, 2021 – $13,153).

The Company is in regular contact with its customers, suppliers and logistics providers, and to date has 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 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.

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

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables is 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 October 31, 2021, the allowance for ECL was $7 (April 30, 2021 - $45).

The Company's allowance for ECL consists of sales allowances released during the year of $28 (April 30, 2021 – $126) mainly from adjustments to expected lifetime credit losses. The amount written-off of $11 (April 30, 2021 - $38) was receivable from a single customer. Below is a breakdown of the Company's ECL:

Movement in the allowance for ECL	As at October 31, 2021	As at April 30, 2021
Balance, beginning of period	**$ 45**	$ 216
Sales allowances adjustments	**(28)**	(126)
Amount written-off	**(11)**	(38)
Currency exchange	**1**	(7)
Balance, end of period	**$ 7**	$ 45

6.5 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 drawings on the revolving credit facility, 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 also relies on the revolving credit facility as a source of funds for short-term working capital needs. Debt maturities in future years are as disclosed in Note 11. The expected maturities of undiscounted financial liabilities, excluding the revolving credit facility, do not differ significantly from the contractual maturities, other than as noted below. With respect to the revolving credit facility maturity, the balance outstanding is expected to be settled, in part, with the funds received from the planned sale of the Holland Landing property, as described in Note 5.

The following table summarizes contractual undiscounted future cash flow requirements as at October 31, 2021:

	2022	2023	2024	2025	2026	Thereafter	Total
Trade and other payables	$ 8,998	$ -	$ -	$ -	$ -	$ -	$ 8,998
Revolving credit facility	11,409	-	-	-	-	-	11,409
Interest commitments relating to revolving credit facility[1]	722	-	-	-	-	-	722
Lease liabilities	963	948	948	948	948	5,121	9,876
Total contractual obligations	$ 22,092	$ 948	$ 948	$ 948	$ 948	$ 5,121	$ 31,005

[1]Interest commitments are calculated based on the term revolving credit facility balance at the interest rate of prime/base plus 8.75% as at October 31, 2021.

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

As at October 31, 2021 the Company had drawn down $11,409 (including interest) on the revolving credit facility (2020 – not drawn) and an unused authorized balance of over $2,116 was available (see Note 11). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets from the expected proceeds from the sale of the Holland Landing property (Note 5), allowing the Company to repay funds drawn under the revolving credit facility.

6.6 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).

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at October 31, 2021:

	Level 1	Level 2	Level 3
Derivative financial assets	**$ -**	**$ 235**	**$ -**
Derivative financial liabilities	**-**	**(25)**	**-**
Total net financial assets	**$ -**	**$ 210**	**$ -**

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.

7. ISSUED CAPITAL

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

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

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

8. LOSS PER SHARE

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

	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020	Six Months Ended October 31, 2021	Six Months Ended October 31, 2020
Net loss	$ **(2,623)**	(3,732)	$ **(6,009)**	(352)
Weighted average number of shares outstanding basic	**14,380,701**	14,380,701	**14,380,701**	14,380,701
Dilution impact of stock options	**-**	-	**-**	-
Weighted average number of shares outstanding diluted	**14,380,701**	14,380,701	**14,380,701**	14,380,701
Basic and diluted loss per share	**(0.18)**	(0.26)	**(0.42)**	(0.02)

9. SEGMENTED REPORTING

The Company's reportable segments are Furniture and Walls. Aggregated in the Furniture segment are systems, benching, storage and seating. This 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 October 31, 2021	Three Months Ended October 31, 2020	Six Months Ended October 31, 2021	Six Months Ended October 31, 2020
Segmented sales				
Furniture	$ **6,121**	5,594	$ **12,069**	13,316
Walls	**3,562**	1,563	**5,472**	5,211
	$ **9,683**	7,157	$ **17,541**	18,527

	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020	Six Months Ended October 31, 2021	Six Months Ended October 31, 2020
Segmented loss				
Furniture	$ **(2,477)**	(1,322)	$ **(5,385)**	(3,778)
Walls	**(402)**	(3,553)	**(1,572)**	(2,312)
	$ **(2,879)**	(4,875)	$ **(6,957)**	(6,090)
Unrealized gain (loss) on foreign exchange	**79**	39	**178**	(295)
Unrealized gain (loss) on derivatives	**24**	519	**(396)**	3,257
Other income	**598**	589	**1,978**	2,782
Interest (expense) income	**(443)**	1	**(809)**	1
Loss before taxes	**(2,621)**	(3,727)	**(6,006)**	(345)
Income tax expense	**(2)**	(5)	**(3)**	(7)

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

Net loss	**$**	**(2,623)**	(3,732)	**$**	**(6,009)**	(352)

10. SUPPLEMENTAL INFORMATION

10.1 Salaries, wages and benefits

	Three Months Ended October 31,			Six Months Ended October 31,		
		2021	2020		**2021**	2020
Included in:						
Cost of goods sold	$	**2,464**	2,055	$	**4,891**	4,655
Selling, general and administrative		**2,791**	2,708		**5,371**	5,351
	$	**5,255**	4,763	$	**10,262**	10,006

10.2 Amortization and depreciation

	Three Months Ended October 31,			Six Months Ended October 31,		
		2021	2020		**2021**	2020
Included in:						
Cost of goods sold	$	**233**	361	$	**463**	719
Selling, general and administrative		**445**	669		**900**	1,323
	$	**678**	1,030	$	**1,363**	2,042

11. CREDIT FACILITY

On April 29, 2021 the Company entered into a new revolving committed credit facility with FrontWell Capital Partners Inc., with credit availability of the lesser of $15,000 and availability pursuant to the Borrowing Base calculation representing accounts receivable, inventories, land and building, with a maturity date which is 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 5). The interest rate on the demand operating credit facility is Prime Rate plus 8.75% for Canadian dollar loans and US Base Rate plus 8.75% for US dollar loans. The agreement is secured by the Company's accounts receivable, inventories, land and building.

As at October 31, 2021, the Company has drawn $11,409 (including interest) on the demand operating credit facility (2020 – not drawn), less deferred financing charges of $136. The Company met all required credit facility covenants as at the date of this report.

12. 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 thousands of Canadian dollars, except where indicated and per share amounts)

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.

For the three months ended October 31, 2021, the Company incurred CEWS qualifying expenditures of $562 (2020 - $590), of which subsidies of $455 (2020 – $698) were received and an accrual of $107 receivable in future periods (2020 – nil).

For the six months ended October 31, 2021, the Company incurred CEWS qualifying expenditures of $1,624 (2020 – $1,509), of which net subsidies of $1,215 (2020 - $1,510) were received and an accrual of $107 receivable in future periods (2020 – 1).

		Three Months Ended October 31,			Six Months Ended October 31,	
		2021	2020		**2021**	2020
Other income during the period:						
Government assistance:						
SBA forgivable loan, utilized	$	**-**	-	$	**(256)**	(1,292)
CEWS subsidies recognized		**(562)**	(590)		**(1,624)**	(1,509)
CERS subsidies recognized		**(36)**	-		**(98)**	-
		(598)	(590)		**(1,978)**	(2,801)
Other		**-**	1		**-**	19
		(598)	(589)		**(1,978)**	(2,782)

The CEWS & CERS programs ended on October 23, 2021.

The Company continues to monitor other government assistance programs in both Canada and the US, however does not appear to qualify for any existings programs at this time.

13. RELATED PARTY TRANSACTIONS

The following were the remuneration of directors and other key management personnel, including the Chief Executive Officer, Chief Financial Officer, Senior Vice President Sales and Distribution, Vice President Marketing & Product Design and Vice President Supply Chain.

		Three Months Ended October 31,			Six Months Ended October 31,	
		2021	2020		**2021**	2020
Salaries and short-term benefits	**$**	**341**	330	**$**	**1,043**	796
Post-employment benefits		**-**	4		**4**	11
Share-based compensation		**15**	212		**122**	202
	$	**356**	546	**$**	**1,169**	1,009

14. SUBSEQUENT EVENTS

On December 8th, 2021, the Company announced the agreement to sell and lease back its Holland Landing Facility at 67 Toll Road, East Gwillimbury, Ontario to a third party for $32,750 which is expected to close on or before January 24, 2022. The Company intends to use the proceeds received at closing to eliminate and retire all of its obligations under its authorized credit facility and retain the remainder of funds derived for general corporate purposes and to fund working capital needs.

15. COMPARATIVE FINANCIAL STATEMENTS

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