

Interim Condensed Consolidated Financial Statements

# **INSCAPE CORPORATION**

(Unaudited)

October 31, 2018 and 2017

**inscape**

# INSCAPE CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

	Note	As at October 31, 2018	As at April 30, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,727	\$ 5,380
Short-term investments		2,000	3,614
Trade and other receivables	3	14,846	12,002
Inventories	4	7,828	6,741
Income taxes receivable		16	23
Prepaid expenses		1,107	927
Fair value of derivative financial assets	5.2	47	547
		<u>28,571</u>	<u>29,234</u>
<b>Non-current assets</b>			
Property, plant and equipment		14,599	13,924
Intangible assets		1,282	1,414
Fair value of derivative financial assets	5.2	-	10
		<u>15,881</u>	<u>15,348</u>
<b>TOTAL ASSETS</b>		<b>\$ 44,452</b>	<b>\$ 44,582</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 17,978	\$ 14,022
Fair value of derivative financial liabilities	5.2	823	127
Provisions		548	328
		<u>19,349</u>	<u>14,477</u>
<b>Non-current liabilities</b>			
Provisions		772	591
Fair value of derivative financial liabilities	5.2	211	81
Retirement benefit obligation		2,953	2,839
Other long-term obligations		262	267
		<u>4,198</u>	<u>3,778</u>
<b>TOTAL LIABILITIES</b>		<b>23,547</b>	<b>18,255</b>
<b>SHAREHOLDERS' EQUITY</b>			
Shareholders' capital	6	52,868	52,868
Contributed surplus		2,675	2,675
Accumulated other comprehensive income (loss)		114	(90)
Deficit		(34,752)	(29,126)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>20,905</b>	<b>26,327</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 44,452</b>	<b>\$ 44,582</b>

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

Approved by the Board of Directors,  
(signed)  
Bartley Bull  
Chairman

(signed)  
Eric Ehgoetz  
Director

# INSCAPE CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the second quarter ended October 31

(unaudited)

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

	Note	Three months ended October 31,		Six months ended October 31,	
		2018	2017	2018	2017
<b>Sales</b>	8	\$ 21,850	\$ 23,209	\$ 43,076	\$ 46,516
<b>Cost of goods sold</b>	9	15,290	17,144	31,024	33,258
<b>GROSS PROFIT</b>		<b>6,560</b>	6,065	<b>12,052</b>	13,258
<b>EXPENSES</b>					
Selling, general and administrative	9	8,650	7,179	16,669	14,983
Unrealized (gain) loss on foreign exchange		(327)	(119)	(11)	338
Unrealized loss (gain) on derivatives	5.2	668	1,586	1,336	(2,517)
Gain on sale of property, plant and equipment		-	-	(32)	-
Gain on sale of intangible		-	-	(263)	-
Investment income		(10)	(19)	(21)	(42)
		<b>8,981</b>	8,627	<b>17,678</b>	12,762
<b>(Loss) Income before taxes</b>		<b>(2,421)</b>	(2,562)	<b>(5,626)</b>	496
<b>Income tax (recovery)</b>	12				
Current		-	-	-	-
Deferred		-	-	-	-
		-	-	-	-
<b>NET (LOSS) INCOME</b>		<b>\$ (2,421)</b>	\$ (2,562)	<b>\$ (5,626)</b>	\$ 496
<b>Net earnings (loss) per share available to shareholders</b>					
	7				
Basic		\$ (0.17)	\$ (0.18)	\$ (0.39)	\$ 0.03
Diluted		\$ (0.17)	\$ (0.18)	\$ (0.39)	\$ 0.03

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

# INSCAPE CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the second quarter ended October 31

(unaudited, in thousands of Canadian dollars)

	Note	Three months ended October 31,		Six months ended October 31,	
		2018	2017	2018	2017
<b>NET (LOSS) INCOME</b>		\$ (2,421)	\$ (2,562)	\$ (5,626)	\$ 496
OTHER COMPREHENSIVE INCOME (LOSS)					
<b>Items that may be reclassified to earnings</b>					
Exchange gain (loss) on translating foreign operations		58	181	204	(452)
Other comprehensive income (loss)		58	181	204	(452)
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>		\$ (2,363)	\$ (2,381)	\$ (5,422)	\$ 44

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# INSCAPE CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Cumulative Remeasurement of Defined Benefit Liabilities	Cumulative Translation Gain (Loss)	Deficit	Total Shareholders' Equity
<b>Balance, April 30, 2018</b>	\$ 52,868	\$ 2,675	\$ (979)	\$ 889	\$ (29,126)	\$ 26,327
Net loss	-	-	-	-	(5,626)	(5,626)
Other Comprehensive income	-	-	-	204	-	204
<b>Balance, October 31, 2018</b>	\$ 52,868	\$ 2,675	\$ (979)	\$ 1,093	\$ (34,752)	\$ 20,905
Balance, April 30, 2017	\$ 52,868	\$ 2,675	\$ (2,932)	\$ 1,327	\$ (26,134)	\$ 27,804
Net income	-	-	-	-	496	496
Other Comprehensive (loss)	-	-	-	(452)	-	(452)
Balance, October 31, 2017	\$ 52,868	\$ 2,675	\$ (2,932)	\$ 875	\$ (25,638)	\$ 27,848

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# INSCAPE CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the second quarter ended October 31

(unaudited, in thousands of Canadian dollars)

		Three months ended		Six months ended	
		October 31,		October 31,	
Net inflow (outflow) of cash related to the following activities:		2018	2017	2018	2017
<b>OPERATING</b>					
Net (loss) income	Note	\$ (2,421)	\$ (2,562)	\$ (5,626)	\$ 496
<b>Items not affecting cash</b>					
Amortization and depreciation		499	595	987	1,196
Pension expense		147	142	285	282
Unrealized loss (gain) on derivatives	5.2	668	1,586	1,336	(2,517)
Share based compensation		(18)	(374)	17	(641)
Unrealized (gain) loss on foreign exchange		(327)	(119)	(11)	338
Gain on sale of property, plant and equipment		-	-	(32)	-
Gain on sale of intangible		-	-	(263)	-
Employer's contribution to pension funds		(40)	(126)	(171)	(227)
<b>Cash (used for) operating activities before non-cash working capital</b>		<b>(1,492)</b>	<b>(858)</b>	<b>(3,478)</b>	<b>(1,073)</b>
<b>Movements in non-cash working capital</b>					
Trade and other receivables		(2,460)	3,524	(2,390)	(845)
Inventories		(1,473)	(1,201)	(1,027)	(2,264)
Prepaid expenses		117	(45)	(165)	(67)
Accounts payable and accrued liabilities		4,639	(783)	3,824	3,963
Provisions		124	-	387	-
Income tax receivables and payables		(3)	(10)	-	(18)
<b>Cash generated from (used for) operating activities</b>		<b>(548)</b>	<b>627</b>	<b>(2,849)</b>	<b>(304)</b>
<b>INVESTING</b>					
Short-term investments held for trading		1,117	(18)	1,614	(1,376)
Additions to property, plant and equipment & intangible assets		(852)	(190)	(1,487)	(537)
<b>Cash generated from (used for) investing activities</b>		<b>265</b>	<b>(208)</b>	<b>127</b>	<b>(1,913)</b>
<b>Unrealized foreign exchange gain (loss) on cash and cash equivalents</b>		<b>97</b>	<b>111</b>	<b>69</b>	<b>(359)</b>
<b>Net cash (outflow) inflow</b>		<b>(186)</b>	<b>530</b>	<b>(2,653)</b>	<b>(2,576)</b>
Cash and cash equivalents, beginning of period		2,913	4,130	5,380	7,236
Cash and cash equivalents, end of period		\$ 2,727	\$ 4,660	\$ 2,727	\$ 4,660
<b>Cash and cash equivalents consist of:</b>					
Cash		\$ 2,401	\$ 4,654	\$ 2,401	\$ 4,654
Cash equivalents		326	6	326	6
		\$ 2,727	\$ 4,660	\$ 2,727	\$ 4,660

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

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

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### 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, Canada.

The Company is an office furniture manufacturer with production at two facilities in Canada and the United States in approximately 438,000 square feet of space. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

The Company reports in two business segments, Office Furniture and Inscape Walls. The Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Inscape Walls segment includes architectural and movable walls. The West Elm Workspace business ceased operations on June 29, 2018. Currently the Company’s head office is located in Holland Landing, Ontario. Inscape’s products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of compliance with IFRS

These unaudited 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, except for the application of new and revised IFRSs described below under section 2.3. These consolidated financial statements were prepared on a going concern assumption using the historical cost basis except for financial instruments. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on December 13, 2018.

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.

#### 2.2 Basis of preparation

The consolidated financial statements include the accounts of Inscape 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. Inscape controls an entity when Inscape is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

#### 2.3 Application of new and revised IFRSs

The Company has adopted a number of new standards which were effective from May 1, 2018 that do not have a material impact on the Company’s consolidated financial statements.

##### *IFRS 15 Revenue from Contracts with Customers*

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements.

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

The Company adopted the standard effective May 1, 2018 using the modified retrospective approach, which resulted in no adjustment to opening retained earnings. Comparative information has not been restated and continues to be reported under previous accounting standards. After completing the analysis of its customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of retained earnings, however IFRS 15 does impact the accounting for the Company's dealer incentive programs.

The costs of incentive programs were previously presented within Selling, general and administrative expenses, are now presented as a reduction of revenue.

The following table shows the effect of the adoption of IFRS 15 on the Company's interim condensed consolidated statement of operations for the three months and six months ended October 31, 2018 (Reported):

	For the three months ended October 31, 2018 (Reported)	Balances without adoption of IFRS 15	Effect of change higher (lower)	For the six months ended October 31, 2018 (Reported)	Balances without adoption of IFRS 15	Effect of change higher (lower)
Sales	\$ 21,850	\$ 21,912	\$ (62)	\$ 43,076	\$ 43,296	\$ (220)
Gross Profit	6,560	6,622	(62)	12,052	12,272	(220)
SG&A	8,650	8,712	(62)	16,669	16,889	(220)
(Loss) before taxes	\$ (2,421)	\$ (2,421)	\$ -	\$ (5,626)	\$ (5,626)	\$ -

As a result of adopting IFRS 15, the Company updated its accounting policies for recognition of revenue relating to the sale of goods and the Company's dealer incentive programs.

### Revenue Recognition

#### Sale of manufactured goods

The majority of the Company's revenue is generated from sales and installation of manufactured goods to customers through a dealer network. The revenue is recognized when the goods are shipped for manufactured goods. For installation, revenue is recognized on a percentage of completion based on physical stage of completion of the contract. Revenue from the sale of manufactured goods and installation is measured at fair value of the consideration received less applicable sales taxes, discounts, rebates and dealer incentives.

#### 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 Income.

#### Early payment discounts

The Company offers an early payment discount to some customers if they pay before due date. Early payment discount is accounted for when payment is received and recorded as a reduction to Revenue in the interim Consolidated Statement of Income.



# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

### IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted IFRS 9, Financial Instruments effective May 1, 2018 with no significant impact on the Company's condensed consolidated interim financial statements.

### IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2, Share Based Payments. The amendment is intended to clarify the estimation of the fair value of cash settled share based payments. The Company adopted the amendments to IFRS 2, Share Based Payments, effective May 1, 2018 with no significant impact on the Company's condensed consolidated interim financial statements.

## 2.4 Accounting standards issued but not yet adopted

### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, specifying the recognition, measurement, presentation and disclosure requirements of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and though permitted, has not been adopted early.

## 3. TRADE AND OTHER RECEIVABLES

	As at October 31, 2018	As at April, 30, 2018
Trade account receivables, gross	\$ 14,302	\$ 12,061
Provision for bad and doubtful debts	(405)	(312)
	13,897	11,749
Other receivables	949	253
	\$ 14,846	\$ 12,002

## 4. INVENTORIES

	As at October 31, 2018	As at April 30, 2018
Raw materials	\$ 5,687	\$ 4,595
Work-in-progress	508	409
Finished goods	1,633	1,737
	\$ 7,828	\$ 6,741

During the quarter, there was an inventory write-down of \$32 (2017 - nil) and \$47 for the six month period ended October 31, 2018 (2017 - nil)

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

### 5. FINANCIAL INSTRUMENTS

#### 5.1 Capital risk management

The Company's objective when managing capital are 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 and reserves excluding accumulated other comprehensive loss as summarized in the following table:

	As at October 31, 2018	As at April 30, 2018
Issued capital	\$ 52,868	\$ 52,868
Contributed surplus	2,675	2,675
Deficit	(34,752)	(29,126)
	<u>\$ 20,791</u>	<u>\$ 26,417</u>

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 line of credit.

See note 10-Credit Facility for a description of the Company's externally imposed covenants.

#### 5.2 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 of Directors. 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, 2018, the Company had outstanding US dollar hedge contracts with settlement dates from November 2018 to March 2020. The total notional amounts under the contracts are US \$39,000 to \$48,900 (2017 - \$41,600 to \$52,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell US dollars at rates ranging from \$1.24 CAD/USD to \$1.45 CAD/USD (2017 - \$1.24 CAD/USD to \$1.45 CAD/USD). These contracts had a mark-to-market unrealized loss of \$987 (US \$750) as at October 31, 2018 (2017 – unrealized gain of \$301 or US \$233), which was recognized on the consolidated statement of financial position as derivative assets and liabilities. 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 consolidated statement of operations as unrealized gain or loss on derivatives of the year.

There were realized losses of \$170 on the settlement of contracts during the second quarter ended October 31, 2018 (2017- nil) and realized losses of \$260 for the six months period ended October 31, 2018 (2017 – realized gains of \$364).

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

(unaudited 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 periods:

	As at October 31, 2018	As at October 31, 2017
Fair value of derivative assets (liabilities), beginning of period	\$ 349	\$ (2,217)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	(1,034)	-
Reversal of derivative assets (liabilities) of contracts	(260)	364
Increase (decrease) in fair values of outstanding	(42)	2,154
Net increase (decrease) in fair value of derivative assets recognized during the period	(1,336)	2,518
Fair value of derivative assets (liabilities), end of period	\$ (987)	\$ 301
Current	\$ (776)	\$ 312
Long-term	(211)	(11)
	\$ (987)	\$ 301

### 5.3 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 first quarter ended October 31, 2018, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately \$128 on the Company's pre-tax earnings (2017 - \$117).

Based on the US dollar denominated assets and liabilities as at October 31, 2018, a 1% change in the Canadian dollar against the US dollar would have an impact of \$131 on the unrealized exchange gain or loss reported in the Consolidated Statements of Operations (2017 - \$109) and an impact of \$241 on the Consolidated Statements of Comprehensive Income (Loss) (2017 - \$230).

### 5.4 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the first quarter ended October 31, 2018, each 100 basis point variation in the market interest rate is estimated to result in a change of \$13 in the Company's investment income (2017 - \$14).

### 5.5 Credit risk management

The Company's cash and cash equivalents, short-term investments, trade accounts receivable and derivative assets are subject to the risk that the counter-parties may fail to discharge their obligation to pay the Company. As at October 31, 2018, the Company's maximum direct exposure to credit risk is \$19,620 (April 30, 2018 - \$21,543).

The Company's investment policy specifies the types of permissible investments, the credit ratings required and the maximum balances allowed. The purchase of any securities carrying a credit rating below BBB for bonds or R1-High for commercial paper is prohibited. On a quarterly basis, management reviews the Company's investment portfolio with the Audit Committee to demonstrate compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. Trade

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

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, 2018, the allowance for doubtful accounts was \$405 (April 30, 2018 - \$312).

### 5.6 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 debt-free and has access to financing facilities which were unused at the end of the reporting period (2017 - unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

### 5.7 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, 2018:

	Level 1	Level 2	Level 3
Short-term investments	\$ -	\$ 2,000	\$ -
Derivative financial (liabilities)	-	(987)	-
<b>Total net financial assets</b>	<b>\$ -</b>	<b>\$ 1,013</b>	<b>\$ -</b>

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at April 30, 2018:

	Level 1	Level 2	Level 3
Short-term investments	\$ -	\$ 3,614	\$ -
Derivative financial assets	-	349	-
<b>Total net financial assets</b>	<b>\$ -</b>	<b>\$ 3,963</b>	<b>\$ -</b>

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

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

### 6. ISSUED CAPITAL

#### Authorized

3,345,881 Class A multiple voting shares, 10 votes per share

Unlimited Class B subordinated voting shares, 1 vote per share

	As at <b>October 31, 2018</b>	As at April 30, 2018
Issued and outstanding		
Class A multiple voting	<b>3,345,881</b>	5,345,881
Class B subordinated voting	<b>11,034,820</b>	9,034,820
	<b>14,380,701</b>	14,380,701

On July 11, 2018 one of the Company's shareholders, Bhayana Management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis. Post conversion there are 3,345,881 Class A Multiple Voting Shares and 11,034,820 Class B Subordinated Voting Shares of Inscape Corporation issued and outstanding.

### 7. 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		Six Months Ended October 31	
	2018	2017	2018	2017
Net (loss) income	\$ (2,421)	\$ (2,652)	\$ (5,626)	\$ 496
Weighted average number of shares outstanding basic	14,380,701	14,380,701	14,380,701	14,380,701
Dilution impact of stock options	7,559	55,161	12,644	59,465
Weighted average number of shares outstanding diluted	14,388,260	14,435,862	14,393,345	14,440,166
Basic and diluted (loss) income per share	\$ (0.17)	\$ (0.18)	\$ (0.39)	\$ 0.03

Stock options are anti-dilutive and are, therefore, not included in the computation of basic and diluted loss per share for second quarters ended October 31, 2018 and 2017.

### 8. SEGMENTED REPORTING

Inscape's reportable segments include Furniture and Walls. Aggregated in the Furniture segment are Systems, Benching, Storage and Seating, including such products sold by Inscape as well as West Elm Workspace with Inscape. 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 comparing 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:

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

	Three Months Ended October 31		Six Months Ended October 31	
	2018	2017	2018	2017
<b>Segmented Sales</b>				
Furniture	\$ 12,699	\$ 17,911	\$ 27,269	\$ 34,603
Walls	9,151	5,298	15,807	11,913
	<b>\$ 21,850</b>	<b>\$ 23,209</b>	<b>\$ 43,076</b>	<b>\$ 46,516</b>

	Three Months Ended October 31		Six Months Ended October 31	
	2018	2017	2018	2017
<b>Segmented (Loss) Income</b>				
Furniture	\$ (2,228)	\$ (265)	\$ (3,780)	\$ (1,109)
Walls	138	(849)	(837)	(616)
	<b>(2,090)</b>	<b>(1,114)</b>	<b>(4,617)</b>	<b>(1,725)</b>
Unrealized gain (loss) on foreign exchange	327	119	11	(338)
Unrealized (loss) gain on derivatives	(668)	(1,586)	(1,336)	2,517
Gain on sale of property, plant and equipment	-	-	32	-
Gain on sale of intangible	-	-	263	-
Investment income	10	19	21	42
Net (loss) income before taxes	<b>(2,421)</b>	<b>(2,562)</b>	<b>(5,626)</b>	<b>496</b>
Income taxes	-	-	-	-
Net (loss) income	<b>\$ (2,421)</b>	<b>\$ (2,562)</b>	<b>\$ (5,626)</b>	<b>\$ 496</b>

## 9. SUPPLEMENTAL INFORMATION

### 9.1 Salaries, wages and benefits

	Three months ended October 31		Six months ended October 31	
	2018	2017	2018	2017
<b>Included in:</b>				
Cost of goods sold	\$ 2,947	\$ 3,968	\$ 6,687	\$ 7,992
Selling, general and administrative	3,923	3,454	8,041	6,664
	<b>\$ 6,870</b>	<b>\$ 7,422</b>	<b>\$ 14,728</b>	<b>\$ 14,656</b>

### 9.2 Amortization and depreciation

	Three months ended October 31		Six months ended October 31	
	2018	2017	2018	2017
<b>Included in:</b>				
Cost of goods sold	\$ 93	\$ 291	\$ 337	\$ 583
Selling, general and administrative	406	304	650	613
	<b>\$ 499</b>	<b>\$ 595</b>	<b>\$ 987</b>	<b>\$ 1,196</b>

# INSCAPE CORPORATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended October 31, 2018 and 2017

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

### 10. CREDIT FACILITY

The Company has a demand operating credit facility of \$10,000 and a demand credit facility for foreign exchange contracts of US \$10,000 with its bank. The interest rate on the demand operating credit facility is Prime Rate plus 0.25% for Canadian dollar loans, US Base Rate plus 0.25% for US dollar loans and 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's personal property.

The credit facility agreement has the following covenants:

1. The ratio of "total liabilities less postponed debt" to "shareholders' equity less intangible assets" does not exceed 1.4 to 1.0 at any time, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.50 to 1.0, measured quarterly.

The Company is in compliance with these covenants as at October 31, 2018 (2017 – in compliance).

As at October 31, 2018, the Company has not drawn on the demand operating credit and the demand credit for foreign exchange contracts (2017 – not drawn).

### 11. RELATED PARTY TRANSACTIONS

The following was the remuneration of directors and other members of key management personnel, including Chief Executive Officer, Chief Financial Officer, Senior VP Sales, VP Marketing, VP Operations, VP Product Development and VP Human Resources. Compensation of the Chief Executive Officer and two directors are paid through companies they control.

	Three Months Ended October 31		Six Months Ended October 31	
	2018	2017	2018	2017
Salaries and short-term benefits	\$ 628	\$ 469	\$ 1,161	\$ 998
Post-employment benefits	13	7	25	11
Share-based compensation	(35)	(587)	17	(225)
	<u>\$ 606</u>	<u>\$ (111)</u>	<u>\$ 1,203</u>	<u>\$ 784</u>

### 12. INCOME TAXES

At the previous fiscal year ended April 30, 2018, the Company recorded a valuation allowance of \$3,850 to derecognize the future income tax benefit of loss carry forwards as deferred tax assets.

### 13. CONTINGENT LIABILITY

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses and a determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. There are no material contingent liabilities as at October 31, 2018 (2017 – none).

### 14. 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.