

# ANNUAL INFORMATION FORM

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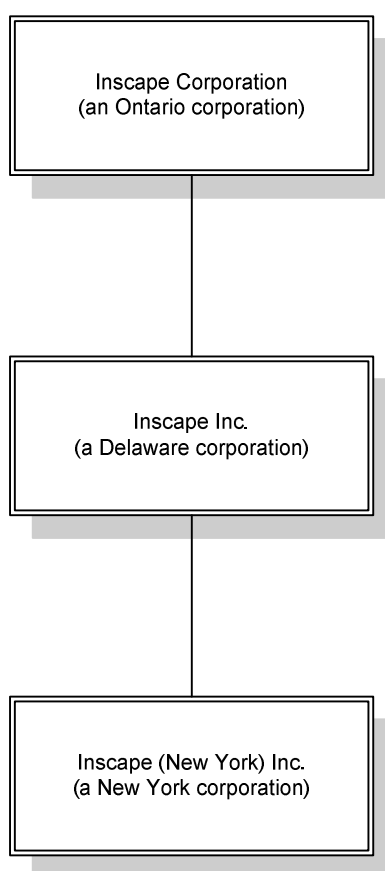
# Table of Contents

	<b>PAGE</b>
CORPORATE STRUCTURE .....	2
GENERAL DEVELOPMENT OF THE BUSINESS.....	3
DESCRIPTION OF THE BUSINESS.....	5
DIVIDENDS.....	17
CAPITAL STRUCTURE .....	18
MARKET FOR SECURITIES .....	18
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER .....	19
DIRECTORS AND EXECUTIVE OFFICERS .....	20
AUDIT COMMITTEE .....	21
TRANSFER AGENT AND REGISTRAR .....	23
ADDITIONAL INFORMATION.....	23
APPENDIX A - CHARTER OF THE AUDIT COMMITTEE .....	24

Unless otherwise specified, the information presented in this Form is as at the last day of the Company's most recently completed financial year on April 30, 2012.

## CORPORATE STRUCTURE

Inscape Corporation maintains its registered and head office at 67 Toll Road, Holland Landing, Ontario, L9N 1H2. The terms "Office Specialty", "Inscape" and the "Company" used in this Form refer to Inscape Corporation, its predecessor companies and our wholly owned subsidiaries. The Company consists of three legal entities as shown in the following diagram:



On December 8, 1997, the Company filed articles of amalgamation to reorganize its capital such that the authorized share capital of the Company consisted of 7,670,881 Class A Multiple Voting Shares ("Multiple Voting Shares") and an unlimited number of Class B Subordinated Voting Shares ("Subordinated Voting Shares") (collectively, the "Capital Reorganization").

In June 1999, the Company changed its operating name to “Inscape” in order to better reflect and communicate its position in the market and the scope of its products.

On September 19, 2000, the Company filed articles of amendment changing its legal name to “Inscape Corporation”.

On May 1, 2007, Inscape Corporation amalgamated with its Canadian subsidiaries, Inscape Ltd. and Office Specialty Ltd., to form one corporation. The surviving corporation has the name "Inscape Corporation" ("Amalco") and carries on business as such. Inscape Ltd. and Office Specialty Ltd. ceased to exist as corporations as of May 1, 2007 and instead, their respective obligations, liabilities, assets, property, employees and undertaking flowed through and became those of Inscape Corporation “Amalco”. There was no third party change of ownership as Amalco is still owned by the same shareholders that owned the pre-amalgamated companies. This amalgamation did not include or impact the Company’s U.S. based subsidiaries.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

Financial year 2012 had a net loss of \$2.0 million or 14 cents per share. Sales were 9.7% lower than the previous financial year mainly because of a substantial decrease in the U.S. currency hedge gains compared with last year and fewer large projects sales for the movable walls division. The adverse impacts of these two factors were alleviated by a healthy growth in the office furniture division, which recorded a 12% increase in sales from the prior year.

In January 2012, Inscape launched its new brand with the tagline “Smart Workspaces” positioning the Company as a provider of customized applications for clients. In late 2011, the Company’s Toronto showroom moved to a new location. The new showroom is more spacious and it provides a dynamic and open environment to showcase Inscape’s creative product solutions. In early 2012 Inscape opened its New York City showroom to support its growth in this key market. The Company has also expanded its direct sales force in select focus markets.

In November 2011, Mr. Madan Bhayana retired from the positions of the Chairman and Chief Executive Officer and remained as a director of the Board. He was succeeded by Mr. Douglas Lord as the Chairman and Mr. Rod Turgeon as the President and Chief Executive Officer. Mr. Lord was appointed to the Board on April 1, 2008. He served as President of Xerox, North American Solutions Group from September, 2008 until his retirement on July 31, 2010. Previously, he served as President, United States Solutions Group and Xerox Canada. During his 34-year tenure with the Xerox, he held a variety of senior leadership roles in sales, marketing, human resources, supply chain, customer service and quality.

Mr. Turgeon comes to Inscap after more than twenty years of successful career with Xerox, where he held several positions including: Vice President of Xerox Global Services Canada, Senior Vice President of United States Solutions Group, Vice President of Strategy, Business Development and Marketing Xerox North America and Chief Operating Officer of the Operations unit of Xerox Developing Markets in the West Region.

After two consecutive years of declining sales and losses in financial years 2009 and 2010, financial year 2011 recorded a sales increase of 23% and a net income of \$2.9 million, or 19 cents per share (On changeover from the Canadian GAAP to International Financial Reporting Standards, the 2011 net income was adjusted to a net income of \$3.6 million or 24 cents per shares). Despite the challenge of heightening pressure on pricing, the Company's project business in furniture systems and movable walls achieved substantial gains in the financial year. A number of important sales initiatives have taken place during the year in order to further penetrate our target markets and grow our top line. These include; hiring top level sales staff; renovating or expanding corporate showrooms; training our selling partners; creating a highly capable proposal department and hiring a Vice President dedicated to building our dealer network.

At the NeoCon trade show in June 2010, Inscap introduced Addwall, a truly movable wall system that seamlessly integrates scalable functionality and aesthetics into a single wall. It allows clients to start with basic panels, and then add functionality and aesthetic features as they grow. A sustainable solution for space division, Addwall provides continuing return on investment as it can be easily reconfigured and re-used many times. Inscap also introduced enhancements to various product lines including power and data capability for Planna (a storage-based desking and credenza system) to expand planning applications for private offices and benching.

The financial year 2010 recorded a net loss of \$1.1 million, compared to a net loss of \$1.3 million in financial year 2009. Basic and diluted earnings per share was a loss of 7 cents in 2010 versus a loss of 9 cents in 2009. Annual sales fell \$13.6 million or 16.4% from prior year's level as the office furniture industry continued to experience an industry downturn. The Company managed to contain the adverse financial impact of falling sales by improving productivity, rolling back salaries, reducing workforce, fixed overheads and discretionary expenses. The success of these actions was reflected in the improvement in the bottom line results from financial year 2009 despite the significant decline in sales. As the Company has a long-term commitment to the movable wall business, the Company exercised a purchase option under the lease agreement of its production plant in Falconer, New York State and acquired the property for \$3.0 million (U.S. dollar \$2.8 million) , in January 2010.

## DESCRIPTION OF THE BUSINESS

### (1) General

Since 1888, the Company has been engaged in the design, manufacture and distribution of premium quality office furniture. Today, the company's products include office furniture systems, filing and storage products, and, movable walls.

Inscape's commitment to product innovation and quality combined with responsiveness to consumer needs has enabled the Company to develop flexible office product solutions for a broad range of customers. Inscape seeks to establish its credibility with its customers through an emphasis on high quality products and on providing flexible solutions for office design challenges. The Company's client list includes large government agencies and many of the large corporations in North America.

### (2) Principal Markets

Enhanced productivity and profitability remain the focus of North American businesses in today's highly competitive global marketplace. This continued focus has resulted in fundamental shifts in the nature of corporate organizational structures, technology and work processes which are creating new opportunities within the office furniture industry. Factors contributing to this growth include:

#### ***(i). Continued Corporate Reengineering and Restructuring***

Businesses are using workplace design to increase productivity and reduce facility costs. Streamlined organizations need furniture that facilitates increased interaction and communication among employees. Organizations such as consulting and accounting firms, whose employees spend considerable time out of the office, are moving toward shared or non-assigned workstations, often in less floor space. Companies that service the office furniture market must provide solutions that are easily adaptable to changes in office design.

#### ***(ii). New Office Technology***

Office furniture must have the capability to support the increased levels of electronic equipment and its related wiring and cabling requirements. Increasing adoption of wireless technology is also impacting office furniture design.

In addition, demand for office furniture is influenced by several economic factors such as white-collar employment levels and corporate profits, which reflect general macroeconomic conditions. Furniture systems constitute one of the largest segments of the office furniture market. They include panels, work surfaces, work tools, lighting and storage elements such as pedestals, which are typically used under the work surface within the workstation. These systems provide customers with the ability to reconfigure and add office furniture in a flexible manner to meet the changing needs of their organizations. While the nature of filing and storage in

the work place is changing, this product category continues to account for a significant portion of the office furniture market.

Even though many North American companies have embraced open concept offices, certain industries and functions still require private offices. Instead of traditional inflexible solutions such as drywall construction, companies are increasingly selecting movable wall solutions. In addition to their eligibility for faster tax deduction, movable walls also allow companies to reconfigure in a cost effective and environmentally friendly way. The movable walls market is an identified growth segment.

### **(3) Corporate Strategy**

The Company's strategic objective is to expand its share of the differentiated quality segment of the office furniture market by providing customers with customized, innovative and timely solutions while maintaining profitability. The key elements of this strategy are as follows:

#### **(i) *Expanding product offering through continuous innovation***

Inscape is committed to using product innovation to provide quality solutions to the changing requirements of the office furniture market. The Company is continuing to maximize integration of its systems, filing and movable wall products into a simple set of universal components that work together. The products are integrated aesthetically, functionally and technologically to offer truly integrated solutions.

Inscape System combines the best features of our two existing panel systems into one cohesive system with more flexible planning options. A revolutionary one-frame approach allows thick and thin panels to be built on the same frame. Shared components simplify specification and enable easy reconfiguration.

#### **(ii) *Expanding sales and marketing efforts***

Inscape launched its new brand in January 2012 with the tagline smart workspaces, positioning the Company as a provider of customized applications for clients. New marketing literature was introduced to support sales activities. A new website was launched in June 2012 to meet the needs of our design audience and share Inscape's solutions for smart workspaces. The website features an industry-leading resource tool that provides inspiration to designers for creating custom workspace solutions using Inscape's products. The engaging and intuitive interface is designed to spark imagination for new and creative applications. Designed to support Inscape's new corporate branding, the website defines Inscape's vision for smart workspaces and provides examples of smart and unique workspaces through case studies and typicals.

At the annual industry trade show NeoCon 2012, Inscape's Showroom showcased unique applications that were created for a diverse range of recent projects using Inscape systems, storage and walls products. Also on display were our new electrified Twin-Bin™, technology enhancements and unique cantilevered storage.

Inscape opened its New York City showroom in early 2012 to support its growth in this key market. The Company's Toronto showroom moved to a new location in late 2011. The Company has also expanded its direct sales force in select focus markets.

The Company has implemented a comprehensive training program for its employees and sales partners to equip them to promote the Company's products. A Workplace Strategy team has been formed within Marketing to support our sales efforts. The Company has also created a Dealer Development structure to focus on strengthening our distribution network, and recently hired a Vice President, Dealer Development to drive sales growth and profitability through our distribution strategies.

**(iii) *Maximizing manufacturing efficiency and flexibility***

The Company's manufacturing strategy is focused on maximizing cost efficiency and maintaining the flexibility to serve the needs of a broad range of customers. To this end, the development and integration of manufacturing methods has been, and will continue to be, an integral part of the Company's product design process. Inscape's use of lean manufacturing principles and cellular manufacturing has enabled it to mass produce customized products in short lead-times and significantly reduce waste. Using this approach, Inscape has been able to significantly reduce machine set-up and other indirect labor costs, processing time for customer orders and inventory levels. The Company intends to continue to invest in sophisticated engineering technology to further speed up customization of orders and new product design.

**(iv) *Environmental accountability***

Environmental accountability is at the forefront of Inscape's corporate mandate. Our filing and storage products and Inscape System have achieved Level certification, the BIFMA sustainability standard for environmental and social impacts of furniture products. Inscape is committed to sustainability by means of reducing landfill dumping, decreasing its carbon footprint, increasing renewable inputs and designing products with longer life cycles. As an example, instead of disposing paints that were left over from special order products, the Company converted them to black paints for use in the inside of panels. We call this paint Eco Black. This measure saves the environment and the Company's costs at the same time. By organizing the environmental program around five specific areas,

Inscape is committed to ensuring success today, tomorrow and for a long time to come.

**Energy:** Continuously reducing non-renewable energy resources and substituting required demand with sustainable inputs.

**Atmosphere:** Humanizing manufacturing practices, carrier discharges and waste management cycles

**Recycling:** Maximizing reclamation of raw materials through procurement directed towards closed-loop and biodegradable materials.

**Technology:** Exploring innovative measures to increase resource conservation, material perpetuation and operational enhancements.

**H2O:** Reducing annual water consumption and discharges by modifying or improving finishing processes.

- (v) **Pursuing complementary alliances and strategic acquisitions** The Company investigates and pursues strategic alliance opportunities and acquisitions that provide entry into new markets or new product categories and which likewise support the continued development of its dealer channel. In financial year 2011, the Company purchased the intellectual property and trademarks of Acme Architectural Walls, a manufacturer and designer of demountable office partitions. The Acme 50 product enables Inscape to address the needs of the high-end market for storefront wall applications.

#### (4) **Products**

Inscape's products fit within three broad categories:

- (i) Filing and Storage;
- (ii) Office Furniture Systems; and
- (iii) Architectural Interiors including full height movable walls.

The Company's broad range of products enables it to offer customers comprehensive office solutions.

##### (i) **Filing & Storage**

The Company offers filing and storage products through its "Office Specialty" brand as well as part of its Inscape applications. The offering includes high quality, high design products like 9900, Storage Centers, Arcus, Linear, Radius, 7900, Grid, Secure File, Custom Profile, Planna, Storwal, Arrivals. The success of this category can be attributed to strong brand name recognition and the innovative design and superior filing and storage solutions.

Cabinets are available in 42 heights in 1½-inch increments whereas, traditionally, these cabinets were available only in four or five heights. The choice in heights and a broad selection of drawer sizes provides customers the ability to create solutions that meet their specific storage needs. The result is that customers are able to achieve significant floor space savings, often in the order of 20% relative

to competitive products. Customers can choose from a wide range of aesthetic options, including customized colors and drawer fronts.

9900, Storage Centers, Arcus, Linear and Radius series offer essentially the same features but have different fronts. Radius series lateral files are available with acoustical sound absorbing fronts. The Impressions front can be customized with cut outs or embossing.

7900 Series is a highly cost-effective family of filing and storage products featuring the quality and design execution that customers have come to trust from the Company. 7900 Series is a competitively priced and highly functional alternative for the mid-market category. It is built with the added functionality of 1.5" vertical increments and integrates seamlessly with any office environment or furniture system.

Grid is a comprehensive program of file fronts that enables designers to change the look of a space by selecting from numerous aesthetically appealing storage fronts. Blending high-end visuals with a modern, residential feel, Grid is available in a range of finish choices – veneer, Nuform, and glazed– and complemented with rectilinear and curved pull options, elevating storage from a functional necessity to an integral design element.

Inscape's Secure File provides a superior level of security for confidential documents and other sensitive media. It has the unique competitive advantage of allowing ganging. The contents of a secure lateral file in a bank of files when ganged together may be accessed regardless of whether adjacent files are locked or unlocked. It is available in Storage Centers, 9900 Series and Arcus Series.

The Custom Profile series is an edition of laterals, cabinets and pedestals offered without drawer fronts. This allows cabinets to be custom matched to the surrounding furnishings or details within an office interior.

Planna is a storage-based desk and credenza system. It can be used as a benching solution in an open office environment or as storage in a conventional private office application.

Storwal is Inscape's innovative workspace solution that utilizes a common storage wall, alternately accessible on both sides to provide necessary filing and storage, deliver voice, data and power to the desktop. Storwal offers a unique alternative to conventional panel-based systems giving organizations the ability to address corporate and individual needs for personal workspace, privacy and storage capacity.

Arrivals is the Company's Desking and Casegoods series consisting of laterals, pedestals and hinged door units with composite wood veneer fronts and matching tops to complement and personalize individual workplaces.

The Company also offers a range of ancillary storage products that complement traditional filing products. For example, storage pedestals are typically used under the worksurface within work areas. In addition, with upholstered tops and casters, mobile pedestals also serve as temporary guest seating, supporting the need for spontaneous meetings, consultation and collaboration. Workplace lockers provide for the storage of personal items, such as coats, as well as the storage of paper and other media. These units are generally used within workstations to create a personalized work environment for employees.

**(ii) Office furniture systems**

Inscape System is a panel based system that offers advanced technology support, flexible architecture, superior fit and finish and industry leading storage options. Launched in 2011, Inscape System combines the best features of our two existing panel systems into one cohesive system with more flexible planning options. A revolutionary one-frame approach allows thick and thin panels to be built on the same frame. Shared components simplify specification and enable easy reconfiguration. Tapered top trims and add-on glazing options provide aesthetic versatility and a level of privacy when lower height panels are specified. Enhanced storage bins and shelves provided a more angular, edgy alternative to the original classic styling.

Tisch is a European designed table-based system that promotes interaction and communication. Designed with modular components and an intelligent rail system, Tisch can be easily reconfigured as workplace needs change and evolve. Utilizing a small set of components, Tisch can migrate from a single desk to a benching application to a casegood system or to a conference table.

**(iii) Architectural interiors**

Even though open office systems are very popular, almost every organization has a need for private offices and meeting rooms. The traditional solution for creating private spaces is drywall. The disadvantage of this solution is that once the space is created, it is very expensive to alter as it involves demolition and reconstruction. Most organizations are in a constant state of change and need to respond to changes in their business. These changes often result in a re-configuration of their workspace. A floor-to-ceiling movable wall system addresses this need. Inscape offers an array of customized movable wall solutions. These walls pay for themselves on the first move and also offer significant tax advantages (through faster amortization) over traditional drywall construction. Inscape walls are designed to easily reconfigure. Unlike many competitor products which require complicated disassembly before being moved, Inscape walls feature a unitized assembly, allowing easy relocation using only a small kit of parts. All architectural products are manufactured in an award-

winning, eco-friendly plant, the first of its kind built on a reclaimed 'brownfield' site in the State of New York.

Addwall is a scalable movable wall solution that offers superior aesthetics. Inscape took the best features from two existing movable wall products and incorporated them into Addwall, a non-generational solution with the flexibility to provide clients with the form and function that meet their requirements and budget. Its additive features and finish options enable companies to select only the features needed to meet their requirements. We also continue to offer Reform, our 2 1/4" thick non-progressive, movable wall solution.

Acme 50 is a seamless glass wall that defines space while maximizing daylight. A slim profile coupled with steel construction allows for solid architecture with a minimalist aesthetic. Clean lines enhance any corporate, creative or architectural environment.

Interval is an architectural post and beam structure that integrates full-height walls, ceiling systems, utilities and furniture components in a single, modular package. The basic structure consists of aluminum post and beams which can then incorporate additional elements including acoustical walls, ceilings and lighting to create private offices and conference rooms.

## **(5) Sales and Marketing**

Inscape markets its products through a network of its own sales representatives in key markets combined with independent sales agencies in other markets. The Company has a team of A&D representatives who are specifically focused on developing relationships and capabilities within the architecture and design communities. These sales resources along with a network of dealers are supported by regional field sales management. The Company's market covers a broad range of industries. Inscape's products are purchased by some of the largest corporations in North America, many of whom can be found in the list of Fortune 1000 companies. A major portion of the Company's sales is derived from substantial projects where large numbers of employees are being relocated to new or refurbished facilities.

## (6) Geographic Segments

Inscape's sales by geographic segments for the financial years ended April 30, 2012 and April 30, 2011 are set out below:

### Inscape Sales by Geographic Segments (\$000's)

	Financial Years Ended April 30,	
	2012	2011
<b>Sales from</b>		
United States	\$ 66,149	\$ 75,549
Canada	11,951	10,115
Other	844	1,741
	<b>\$ 78,944</b>	<b>\$ 87,405</b>

## (7) Distribution Methods

Architects, interior designers and facility managers have significant roles in the process of furniture selection by a potential customer. These professionals typically act as consultants to businesses in the design of facilities and interior space to meet their business needs. In carrying out their duties, architects, interior designers and facility managers are often asked to recommend office systems and furniture to their customers or employer.

The Company has segmented North America into four geographic regions for the purposes of sales management. A Regional Vice President is assigned to each region to work closely with independent and direct sales representatives to promote the Company's products in specified territories. These representatives market the Company's products to architects, interior designers, facility managers, real estate brokers and dealers to increase awareness of the unique solutions offered by the Company's products.

The Company continues to develop its extended sales organization with new sales representatives and dealers, especially in key growth target markets across North America.

In a typical transaction for a project order, the Inscape sales organization will work with furniture dealer sales personnel to promote Inscape's products to end users and their advisors. When the customer has determined its furniture requirements, it places an order with a furniture dealer, which in turn orders the product from Inscape. The dealer, which typically carries a broad range of competitive office furniture products, installs the furniture and provides ongoing service to the end user. A smaller order would usually result from service

provided by a dealer to an end user with little input from Inscape's sales staff or independent representatives.

The Company also promotes its products through the use of quality sales literature, advertising in industry trade publications, participation at industry trade shows, and electronic media such as its website and email campaigns.

## **(8) Manufacturing**

Inscape's emphasis on responsiveness to customer needs is reflected in its manufacturing methodology. Manufacturing processes are developed concurrently with product design and with the objective to be flexible enough to adapt to the unique requirements of its customers on a timely basis.

The Company's products are produced using the JIT/Cellular manufacturing method. Under this concept, each product is broken down into component parts. A manufacturing cell is designed to produce each of these parts and consists of dedicated machines capable of performing a specific series of functions. Semi-autonomous work teams control the production activity of each cell, including quality assurance. Employee productivity is enhanced through (i) cross-training of all employees in a team allowing them to perform virtually every operation in the cell; and (ii) incentive-based compensation linked to quality and production volumes. In connection with its JIT approach to manufacturing, the Company also seeks to achieve JIT inventory practices through its relations with its principal suppliers.

The use of the JIT/Cellular approach has generated significant economic benefits for the Company. Through the reduction of activities such as material handling and tooling set-ups, most non-productive time has been eliminated, resulting in greatly reduced manufacturing costs. The JIT/Cellular approach and its dedicated machine set-up ensure that manufacturing unit cost of production is minimized. This approach allows for the manufacture of small-customized orders in an efficient manner. As a result, small orders remain a profitable segment of the Company's business. This ability to respond quickly to customers is a significant competitive advantage.

## **(9) Facilities**

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.

The Holland Landing facility is built on 35 acres of land owned by the Company in Holland Landing, Ontario, approximately 45 minutes north of Toronto. This facility is used to manufacture systems and filing products. In addition, this facility

houses most of the Company's administrative, support, engineering and corporate offices. The Company maintains a showroom at this location.

The architectural and movable wall systems are produced in the facility in Falconer, New York. Other Company premises include showrooms in Chicago, Washington, D.C., New York and Toronto. The Company's representatives and dealers typically have and manage their own showrooms with Inscape furniture displays.

**(10) Specialized Skills and Knowledge**

In order to operate effectively, the Company requires a variety of skilled professionals including design, engineering, IT and manufacturing personnel. The Company has an adequate number of such skilled professionals.

**(11) Components**

The major raw materials used by the Company are cold-rolled steel, fabric, powder and liquid paint and plastic components. Most of these materials are sourced locally. These materials are readily available and the Company has not faced any significant material shortages.

**(12) Cycles**

Inscape's business is not impacted by seasonality but it is reliant on white collar employment and corporate profits and thus is affected by general economic cyclical trends.

**(13) Employees**

As at April 30, 2012, Inscape employed approximately 410 people of whom 234 were unionized.

**(14) Intellectual Properties**

The Company believes that its success depends, in part, upon its ability to develop and protect proprietary technology contained in its products and its manufacturing process and relies on a valuable body of technical know-how related to the design of its products. Inscape holds a number of design and utility patents relating to its furniture products in the principal markets in which it competes. These patents expire at varying dates, with the majority of the key patents expiring in the next five to fifteen years. An application for a patent for a new product introduced in January 2010 (Addwall) has been submitted along with a number of other patent applications. An application for a patent for the new Inscape System to be launched in September 2011 has been filed. In financial

year 2009, the Company signed a ten-year licence agreement with a successful European manufacturer to manufacture and market an award-winning table-based system (Tisch) in North America. The licence will be automatically renewed for another ten years unless the agreement is terminated pursuant to the provisions of the agreement. The Company currently relies upon these patents, intellectual property laws, as well as contractual restrictions, to establish and protect proprietary rights in its products and designs. Inscape has also entered into non-disclosure agreements with its employees as appropriate and non-disclosure agreements with certain of its suppliers so as to limit access to and disclosure of its proprietary information.

#### **(15) Environmental Protection Requirements**

The Company is subject to environmental regulation by federal, provincial, state and local authorities. Although Inscape's operations do not involve activities likely to create significant environmental risks, its operations involve the use of chemicals that must be stored, handled, used and disposed of in accordance with environmental regulation. Environmental protection requirements did not have a material impact on capital expenditures, earnings, or competitive position of the Company in financial year 2012. Based on existing practices and legislative requirements, the impact of environmental requirements in future years is expected to be similar to the experience in the current financial year.

#### **(16) Competition**

Inscape operates in a highly competitive environment. In the markets in which it operates, the Company generally competes with a small number of larger companies. Several of Inscape's larger competitors operate in many of the Company's geographic and product-markets and exert a high degree of control over office furniture dealers who principally sell their products. The Company also competes with a large number of smaller, independent companies, many of which are well established in the markets in which they sell their products.

#### **(17) Risk Factors**

Risk factors relating to the Company and its business in order of seriousness are as follows:

##### **General economic and market conditions**

Demand for office furniture is sensitive to general economic conditions such as the white-collar employment rate, corporate growth and profitability, government spending, office relocations and commercial property development. The Company manages to moderate the impact of this risk by increasing the differentiation of our products to attract new customers, the launching of new

products to gain market share and enhancing the coverage of customers and designers.

### **Competitive environment**

Office furniture is a mature and highly competitive industry. Our main competitors include global companies with strong brand name recognition and capability to utilize offshore outsourcing. This competitive environment results in price pressure and limits certain distributors' ability to carry Inscape products along with those of the competitors. The Company competes on product design, functionality, innovation and customer service. Our success will depend on keeping the established "Office Specialty" brand and identity intact and active, building a distribution network that is aligned with Inscape, targeting highly autonomous aligned dealers that are receptive to our corporate position of being a creative solution provider for unique applications, and automating certain processes to keep improving our productivity and quality.

### **Raw material and commodity costs**

Fluctuations in raw material and commodity prices could have a significant impact on the Company's cost of sales and operating results. Since most of the raw materials and commodities used by the Company are not unique to the office furniture industry, their costs are often affected by supply and demand in other industries and countries. As a result, the Company may experience rising raw material and commodity costs that cannot be recovered from customers when the office industry is in recession. The Company manages its manufacturing costs by locking in supply contract prices, improving production yields, reducing spoilage, focusing on quality control and overseas sourcing, where appropriate.

### **U.S. dollar exchange rate**

As the U.S. is the main market for the Company, fluctuations in the U.S./Canadian dollar exchange rate have a significant impact on the operating results, cash flows and financial condition of the Company. As the U.S./Canadian dollar exchange rate declines, the amount of Canadian dollars available from the conversion of the U.S. dollar sales diminishes. The Company manages its foreign currency exposure through the use of U.S. dollar hedge instruments. As the hedge instruments provide the Company with an opportunity to lock in the U.S. currency conversion rate at a prevailing hedge rate, they facilitate the Company's business planning process with pre-determined exchange rate exposure. However, the instruments do not eliminate the adverse effect of unfavorable U.S./Canadian dollar exchange rates, as the prevailing hedge contract rate is affected by the prevailing spot exchange rate. To minimize the adverse effect of a declining exchange rate, the Company increases purchases in U.S. dollars where appropriate and seeks to increase sales volume in Canadian markets.

**Access to the U.S. markets**

The Company depends heavily on unrestricted access to the U.S. markets as a significant portion of the Company's sales is derived from there. The Company's business, operating results, cash flows and financial condition will be seriously affected if access to the U.S. markets is restricted due to political, social, economic or regulatory reasons. Buy America sentiment and regulations may deny the Company's chance in bidding contracts, especially with the government. The Company needs to monitor closely developments in various U.S. statutes, regulations, procurement requirements and border crossing restrictions. Where appropriate, the Company publicizes its extensive investment in the U.S. and contribution to the economy by operating a production plant in New York State, providing employment opportunities in different states and purchasing from U.S. suppliers.

**Effectiveness of market representatives**

The Company relies on the effectiveness of independent market representatives to market our products to customers. A market representative may choose to terminate relationship with us or the effectiveness of a market representative may decline. Disruption of the relationship or transition of an underperforming representative could have an adverse impact on our business in the affected market. The Company manages this risk by maintaining strong connection to performing representatives at the regional senior management level. The Company also assesses the effectiveness of the representatives on a regular basis.

**Effectiveness of growth strategy implementation**

The Company seeks to grow its business and market share by promoting our brand awareness, creating a corporate image as a creative designer and manufacturer of office furniture, offering simple, easy to work with products, and providing visualization tools to assist designers and clients with solutions for workspaces. Effective implementation of these strategies is essential to the future growth of the Company. The Company's sales and results of operations will be adversely affected if there are delays or difficulties in carrying out the strategies.

**DIVIDENDS**

The Board of Directors decides on the declaration of dividends by considering the Company's financial condition, performance, investment requirements and other relevant factors. The Company did not declare dividends for the three most recently completed financial years.

## CAPITAL STRUCTURE

The authorized share capital of the Company consists of 7,670,881 Class A multiple voting shares and an unlimited number of Class B subordinated voting shares.

Class A multiple voting shares carries ten votes per share. Class B subordinated shares carries one vote per share.

At the beginning of fiscal year 2011 on May 1, 2010, the Company had 5,345,881 Class A multiple voting shares and 9,750,936 Class B subordinated voting shares outstanding. On July 9, 2010, the Company repurchased 441,317 Class B subordinated voting shares from an ex-officer of the Company at \$1.88 per share for cancellation. In September 2010 the Company received approval from the Toronto Stock Exchange to launch a one-year share buy-back program - Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company can repurchase from the market for cancellation up to a maximum of 465,481 Class B subordinated voting shares at prevailing market prices over a twelve month period ending on September 22, 2011. A total of 157,299 Class B subordinated voting shares have been repurchased and cancelled at an average of \$2.71 per share.

In September 2011 the Company applied to the Toronto Stock Exchange and was approved another NCIB for a twelve month period from September 30, 2011 to September 29, 2012. The Company can repurchase from the market for cancellation up to a maximum of 457,616 Class B subordinated voting shares. As at April 30, 2012, a total of 114,000 Class B shares have been repurchased and cancelled at an average of \$2.52 per share.

The following is a summary of the changes in issued and outstanding shares of the Company from May 1, 2010 to April 30, 2012:

	May 1, 2010		April 30, 2011		April 30, 2012
Issued and outstanding	Balance	Repurchase	Balance	Repurchase	Balance
Class A multiple voting	5,345,881		5,345,881		5,345,881
Class B subordinated voting	9,750,936	(497,657)	9,253,279	(214,959)	9,038,320
Total number of shares	15,096,817	(497,657)	14,599,160	(214,959)	14,384,201

## MARKET FOR SECURITIES

The Subordinated Voting Shares are listed and posted for trading on the Toronto Stock Exchange (TSX) under the symbol “INQ”.

### Trading Price and Volume

Month	High	Low	Volume traded
2012/04	\$ 2.25	\$ 2.06	7,718
2012/03	\$ 2.10	\$ 2.00	4,800
2012/02	\$ 2.25	\$ 2.19	18,800
2012/01	\$ 2.25	\$ 2.25	2,436
2011/12	\$ 2.25	\$ 2.25	5,900
2011/11	\$ 2.85	\$ 2.25	17,600
2011/10	\$ 2.75	\$ 2.20	47,750
2011/09	\$ 2.54	\$ 2.40	134,895
2011/08	\$ 2.60	\$ 2.52	316,537
2011/07	\$ 3.43	\$ 2.80	22,626
2011/06	\$ 3.34	\$ 2.56	82,701
2011/05	\$ 2.75	\$ 2.75	14,750

## ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Designation of class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of class
Class A Multiple Voting Shares	5,345,881	100%

The Class A Multiple Voting Shares may only be held by Madan Bhayana and certain persons related to, or controlled by him. The holders of the Multiple Voting Shares have entered into a stock control agreement dated December 9, 1997 (the “Control Agreement”) to prohibit transfers, granting a security interest in, encumbering or otherwise disposing of their Multiple Voting Shares except by way of a Permitted Transfer (as defined under the Control Agreement and being principally a transfer to affiliates of the present holders of the Multiple Voting Shares or the granting of a security interest in such shares by such holders to a Canadian financial institution with which it deals at arms-length with the holder in connection with a bona fide debt; provided that such financial institution may not vote or direct the voting of such shares). The Multiple Voting Shares are convertible at any time at the option of the holder on a one-for-one basis into Subordinated Voting Shares. Multiple Voting Shares will be deemed to be converted into Subordinated Voting Shares in certain events, including the death of Madan Bhayana or a transfer of Multiple Voting Shares pursuant to a transfer that is not a Permitted Transfer. The shares are deposited with CIBC Mellon acting as trustee.

## DIRECTORS AND EXECUTIVE OFFICERS

The names, municipalities of residence, positions with the Company and principal occupations of the directors and executive officers of the Company are as follows:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Office held with Inscape Corporation</u></b>	<b><u>Date First Elected Director</u></b>	<b><u>Principal Occupation</u></b>
Douglas C. Lord Burlington, Ontario	Chairman of the Board	April 1, 2008	Corporate Director
Madan Bhayana Thornhill, Ontario	Director	December 8, 1997	Chairman of the Board and CEO Inscape Corporation
Bartley Bull <sup>(1) (2)</sup> Toronto, Ontario	Director	December 8, 1997	Corporate Director
Dezső J. Horváth <sup>(1),(3)</sup> Toronto, Ontario	Director	December 21, 2002	Dean, Schulich School of Business, York University
Robert G. Long, FCA <sup>(1),(2)</sup> Thornhill, Ontario	Director	September 29, 2004	Corporate Director
Brian A. Mirsky <sup>(2) (3)</sup> Toronto, Ontario	Director	April 1, 2008	President and Chief Executive Officer, Fresh Change Foods Group Ltd
Rod Turgeon Richmond Hill, Ontario	President & Chief Executive Officer	NA	President & Chief Executive Officer
Kent Smallwood Toronto, Ontario	Chief Financial Officer, Treasurer , Secretary & Executive VP Corporate Development	NA	Chief Financial Officer, Treasurer , Secretary & Executive VP Corporate Development
Quentin Kong Toronto, Ontario	Executive VP Marketing & Product Development	NA	Executive VP Marketing & Product Development
Glen Snelling Newmarket, Ontario	Vice President ,Manufacturing	NA	Vice President Manufacturing

Notes:

- (1) Member of audit committee
- (2) Member of compensation and corporate governance committee
- (3) Member of strategy committee

Each director holds office until the next annual meeting of shareholders unless his office is earlier terminated or vacated. Other than as noted below, each director and executive officer has held the same principal occupation for the previous five years.

Mr. Madan Bhayana was appointed CEO on November 30, 2009. Mr. Bhayana retired from the positions of Chairman of the Board and CEO of the Company on November 1, 2011 and remains as a director of the Board.

Prior to his retirement in July 2010, Mr. Douglas Lord was the President of Xerox, North American Solutions Group. Prior to January 1, 2008, he was President of Xerox Canada. Mr. Lord was appointed Chairman of the Board on November 1, 2011.

Prior to joining Inscope, Mr. Rod Turgeon was the Chief Operating Officer of Developing Markets in the Western Region, Xerox. Prior to that, he was Vice-President of Strategy, Business Development and Marketing for Xerox North America from January 2010 to December 2010, Senior Vice-President of U.S. Solutions Group, Xerox Global Services from Aug 2008 to December 2009, Vice-President of Xerox Global Services Canada from May 2006 to July 2008.

Mr. Quentin Kong was Co-President of GoToMarket Agility Inc. since 2009. before joining Inscope. Prior to that, he was Vice-President, North America Marketing and Solutions Group, SoftChoice Corporation from 2007 to 2008, Director, Marketing and Sales Operations of SoftChoice from 2006 to 2007.

As at July 30, 2012, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, an aggregate of 3,685,901 Class B subordinated voting shares and 5,345,881 of the Multiple Voting Shares of the Company, being 40.8% and 100%, respectively of the issued and outstanding shares of each such class.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

The charter of the Audit Committee is attached as Appendix A to this Annual Information Form.

### **Composition**

The members of the Audit Committee are: Robert G. Long (Chair), Dezső J. Horváth, and Bartley Bull. All of them are independent and financially literate within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

## Relevant Education and Experience

The education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Committee is summarized below:

Name	Education and relevant experience
Robert G. Long	<ul style="list-style-type: none"> <li>• Bachelor of Commerce (University of Toronto)</li> <li>• Chartered Accountant and FCA</li> <li>• Formerly Vice-Chair of Ernst &amp; Young LLP</li> </ul>
Dezső J. Horváth	<ul style="list-style-type: none"> <li>• M.B.A and PhD degrees obtained in Sweden</li> <li>• Dean and Tanna H. Schulich Chair in Strategic Management at the Schulich School of Business, York University</li> </ul>
Bartley Bull	<ul style="list-style-type: none"> <li>• Bachelor of Commerce (Queen's University)</li> <li>• Chartered Accountant</li> <li>• Formerly CFO of Inscape Corporation</li> </ul>

## Pre-approval Policies and Procedures

The Audit Committee is responsible for overseeing the work of the independent auditors and considering whether the provision of services, other than audit services, is compatible with their independence. All non-audit services proposed to be performed by the external auditors are submitted to the Audit Committee for pre-approval, except that the Committee has adopted a practice whereby the Chair of the Committee is authorized to review and approve engagements for non-audit services involving fees of \$50,000 or less.

## External Auditor Service Fees by Category

	Financial Years Ended April 30,	
	2012	2011
Audit Fees	\$198	\$202
Audit-Related Fees	39	53
Canadian and US Tax Related Compliance	16	11
<b>Total</b>	<b>\$253</b>	<b>\$266</b>

All amounts in thousands of dollars

## **TRANSFER AGENT AND REGISTRAR**

By mail:

CIBC Mellon Trust Company  
c/o Canadian Stock Transfer Company Inc.  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, ON  
M5C 2W9

tel: 416 643 5500 or 1 800 387 0825 (within Canada and the United States)

fax: 416 643 5501

e-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

website: [www.canstockta.com](http://www.canstockta.com)

## **ADDITIONAL INFORMATION**

Additional information relating to Inscope Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's information circular for the Annual Meeting of security holders to be held on September 13, 2012.

Additional financial information is provided in the Company's financial statements and MD&A for the financial year ended April 30, 2012.

# Appendix A

## INSCAPE CORPORATION CHARTER OF THE AUDIT COMMITTEE

### 1) AUTHORITY

The Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of Inscape Corporation (the “**Corporation**”) was established pursuant to Section 158 of the Ontario Business Corporations Act. The Committee shall be comprised of at least three members of the Board. Consistent with the appointment of other Board committees, the members of the Committee shall be elected by the Board at the meeting when the Corporation’s first quarter results are reviewed or at such other times as may be determined by the Board. The Chairman of the Committee shall be designated by the Board, provided that if the Board does not so designate a Chairman, the members of the Committee, by majority vote, may designate a Chairman. The presence in person or by telephone of a majority of the Committee’s members shall constitute a quorum for any meeting of the Committee. All actions of the Committee will require the vote of a majority of its members present at a meeting of the Committee at which a quorum is present.

### 2) PURPOSE OF THE COMMITTEE

The Committee’s purpose is to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation and its subsidiaries. It is the objective of the Committee to maintain free and open means of communication among the Board, the Committee, the independent auditor and the financial and senior management of the Corporation.

### 3) COMPOSITION OF THE COMMITTEE

The Committee shall be made up of “independent directors” within the meaning of the corporate governance policy of the Canadian Securities Administrators (the “CSA”) and all should be non-management directors.

All members of the Committee shall be financially literate at the time of their election to the Committee. “Financial Literacy” shall be determined by the Board in the exercise of its business judgment and shall include a working familiarity with basic finance and accounting practices and an ability to read and understand fundamental consolidated financial statements, including a balance sheet, income statement, a cash flow statement and the notes thereto. At least one member shall have “accounting or related financial expertise” as contemplated under the corporate governance policy of the CSA. Specifically, the

Audit Committee's financial expert and the member with "accounting or related financial expertise" must have the following attributes:

- (1) an understanding and ability to analyze and interpret a full set of financial statements, including the notes attached thereto, prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and International Financial Reporting Standards (IFRS).
- (2) an ability to assess the general application of Canadian GAAP in connection with the accounting for estimates, accruals and reserves.
- (3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements or experience actively supervising one or more persons engaged in such activities.
- (4) an understanding of internal controls and procedures for financial reporting; and
- (5) an understanding of audit committee functions.

Committee members, if they or the Board deem it appropriate, may enhance their understanding of finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant or firm.

#### **4) MEETINGS OF THE COMMITTEE**

The Committee shall meet with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities. As part of its purpose to foster open communications, the Committee shall meet with Management, and the Corporation's independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups or persons believe should be discussed privately. In addition, the Committee (or the Chairman) should meet or confer with the independent auditors and Management to review the Corporation's interim consolidated financial statements prior to their filing with the Ontario Securities Commission (the "OSC") or any other regulatory body. The Chairman should work with the Chief Financial Officer and Management to establish the agendas for Committee meetings. The Committee, in its discretion, may ask members of Management or others to attend its meeting (or portions thereof) and to provide pertinent

information as necessary. The Committee shall maintain minutes of its meetings and records relating to those meetings and the Committee's activities and provide copies of such minutes to the Board.

## **5) DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

The Committee is responsible for the appointment (subject to shareholder approval), compensation, retention, evaluation and oversight of the work of the Corporation's independent auditors engaged for the purpose of preparing or issuing an audit report or related work or performing in other audit, review or attest services for the Corporation and, in accordance with the requirements of the TSX and the rules promulgated by the OSC, the independent auditors must report directly to the Committee and are accountable to the Committee (as representatives of the shareholders of the Corporation). The Committee's oversight responsibilities include the authority to approve all audit engagement fees and terms, as well as all permitted non-audit engagements and resolution of disagreements between Management and the independent auditors regarding financial reporting.

The Committee is responsible for ensuring that the Corporation's independent auditors submit, on a periodic basis to the Committee, a formal written statement delineating all relationships between the independent auditors and the Corporation and actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and for taking appropriate action to ensure the independence of the independent auditors within the meaning of applicable Canadian law.

The Committee is responsible for the oversight of the Corporation's accounting and financial reporting processes generally and shall develop procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

In carrying out its duties and responsibilities the Committee's policies and procedures should remain flexible so that it may be in a position to react or respond to changing circumstances or conditions. While there is no "blueprint" to be followed by the Committee in carrying out its duties and responsibilities, the following specific matters should be considered within the authority of the Committee (it being understood that the Committee may diverge from such matters as considered appropriate given the circumstances).

## **Selection and Evaluation of Auditors**

- (1) Select the firm of independent public accountants to audit the consolidated financial statements of the Corporation and its subsidiaries for each fiscal year (subject to shareholder approval);
- (2) Review and approve the Corporation's independent auditor's annual engagement letter, including the proposed fees contained therein;
- (3) Review the performance of the Corporation's independent auditors and replace or terminate the independent auditors when circumstances warrant;
- (4) Oversee the independence of the Corporation's independent auditors by, among other things:
  - i. Requiring the independent auditors to deliver to the Committee on a periodic basis a formal written statement delineating all relationships between the independent auditors and the Corporation; and
  - ii. Actively engaging in a dialog with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and taking appropriate action to satisfy itself of the auditors' independence.
- (5) Instruct the Corporation's independent auditors that:
  - i. they are ultimately accountable to the Committee (as representatives of the shareholders of the Corporation);
  - ii. they must report directly to the Committee;
  - iii. the Committee is responsible for the appointment (subject to shareholder approval), compensation, retention, evaluation and oversight of the Corporation's independent auditors;
  - iv. they must inform the Committee, on a timely basis, of any material concerns which they may have about internal controls and the financial operations of the Corporation and any material differences of opinion between

Management and the independent auditors on such subjects; and

- v. they must inform the Committee of any practices or conditions affecting the Corporation that, in the opinion of the independent auditors, are not satisfactory and require rectification.
- (6) Review and pre-approve all audit and permitted non-audit services or mandates to be provided by the independent auditors to the Corporation, including tax services and to determine which non-audit services the independent auditors are prohibited from providing.

### **Oversight of Annual Audit and Quarterly Reviews**

- (1) Review and accept, if appropriate, the annual audit plan of the Corporation's independent auditors, including the scope of audit activities and monitor such plan's progress and results during the year;
- (2) Confirm through private discussion with the Corporation's independent auditors and the Corporation's Management that no management restrictions are being placed on the scope of the independent auditors' work;
- (3) Review the results of the year-end audit of the Corporation, including (as applicable):
  - i. the auditors' report, the consolidated financial statements, the management representation letter, memorandum prepared by the Corporation's independent auditors regarding internal controls, any other pertinent reports and Management's responses concerning such memorandum;
  - ii. the review of and discussions with the independent auditors as to the qualitative judgments of the independent auditors about the appropriateness, not just the acceptability of accounting principle and financial disclosure practices used or proposed to be adopted by the Corporation including any alternative treatments of financial information that have been discussed with Management, the ramification of their use and the

independent auditors' preferred treatment, as well as any other material communication with Management and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates;

- iii. the selection and application of the Corporation's critical accounting policies;
  - iv. the methods used to account for significant unusual transactions or circumstances;
  - v. the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
  - vi. significant recorded and unrecorded audit adjustments;
  - vii. any material accounting issues between Management and the independent auditors; and
  - viii. other matters required to be communicated to the Committee under generally accepted auditing standards, as amended, by the independent auditors.
- (4) Review with Management and the Corporation's independent auditors such accounting policies (and changes therein) of the Corporation, including any financial reporting issues which could have a material impact on the Corporation's consolidated financial statements, as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the OSC or other regulatory body;
- (5) Review the Corporation's interim consolidated financial statements prior to the filing thereof with the OSC or other regulatory body and confirm that such statements have been reviewed by the Corporation's independent auditors;
- (6) Review the completion of OSC's requirements with respect to CEO/CFO certification of annual and interim filing and ensure compliance with prevailing OSC requirements.
- (7) Review and, if appropriate, recommend approval of the Board, of the Management's Discussion and Analysis relating to the Corporation's consolidated financial statements, the Corporation's

interim consolidated financial statements and the Corporation's earnings press releases; and

- (8) Review and, if appropriate, recommend approval of the Board, of the reports to security holders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements, and the Annual Information Form and Proxy Circular.

### **Oversight of Financial Reporting Process and Internal Controls**

- (1) Review the adequacy and effectiveness of the Corporation's accounting and internal control policies and procedures through inquiry and discussions with the Corporation's independent auditors and Management;
- (2) Review with Management the Corporation's administrative, operational and accounting internal controls, including controls and security of the computerized information systems, and evaluate whether the Corporation is operating in accordance with its prescribed policies, procedures and codes of conduct;
- (3) Review with Management and the independent auditors any reportable conditions and material weaknesses affecting internal control;
- (4) Receive periodic reports from the Corporation's independent auditors and Management of the Corporation to assess the impact on the Corporation of significant accounting or financial reporting developments that may have a bearing on the Corporation; and.
- (5) Establish and maintain free and open means of communication between and among the Board, the Committee, the Corporation's independent auditors and Management.

### **Other Matters**

- (1) Meet with outside counsel, when appropriate, to review legal and regulatory matters, including any matters that may have material impact on the Corporation's consolidated financial statements;
- (2) Review the Corporation's policies relating to the avoidance of conflicts of interest and review and approve any transactions between the Corporation and members of Management, as well as policies and procedures with respect to officers' expense accounts

and perquisites, including the use of corporate assets. The Committee shall consider the results of any review of these policies and procedures by the Corporation's independent auditors;

- (3) Conduct or authorize investigations into any matters within the Committee's scope of responsibilities, including retaining outside counsel or other consultants or experts as the Committee determines necessary to carry out its duties;
- (4) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (5) Review any significant transactions outside the Corporation's ordinary course of business and all pending litigation involving the Corporation;
- (6) Review periodically with Management the Corporation's major financial risk exposure and the steps Management has taken to monitor and control such exposures;
- (7) Examine the compliance of the Corporation with all applicable legislation, including tax withholding and all tax laws (filing of tax returns and assessments);
- (8) Review the appropriateness and adequacy of the Corporation's insurance program;
- (9) Review with the Chief Financial Officer, at least annually, the quality and sufficiency of the Corporation's accounting and financial personnel and the consideration of implementation of an internal audit group;
- (10) Review of communications from security regulators and the Corporation's responses;
- (11) Review of any prospectus documents and material change reports;
- (12) Review, on an annual basis, the funding status of the Corporation's pension plans, investment performance and asset allocation;
- (13) Review of the Corporation's compliance with health, safety and environmental regulations;

- (14) Review and reassess the adequacy of this Charter annually and report the results of the assessment to the Board; and
- (15) Perform such additional activities, and consider such other matters within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

With respect to the duties and responsibilities listed above, the Committee should:

- (1) Report regularly to the Board on its activities, as appropriate;
- (2) Exercise reasonable diligence in gathering and considering all material information;
- (3) Understand and weigh alternative courses of conduct that may be available;
- (4) Focus on weighing the benefit versus harm to the Corporation and its shareholders when considering alternative recommendations or courses of action; and
- (5) If the Committee deems it appropriate, secure independent expert advice and understand the expert's findings and the basis for such findings, including retaining independent counsel, accountants or others to assist the Committee in fulfilling its duties and responsibilities.

## **6) FUNDING**

The Committee's effectiveness may be compromised if it is dependent on Management's discretion to compensate the independent auditors or the advisors employed by the Committee. Consequently, the Corporation shall provide for appropriate funding, as determined by the Committee, for payment of any compensation (i) to any independent auditors engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Corporation, and (ii) to any independent advisors employed by the Committee.

## **7) DISCLOSURE OF CHARTER**

This Charter shall be (i) published in the Corporation's annual report or information circular once every three years or following a material amendment to it; or (ii) be posted in an up-to-date format on the Corporation's web site.

While the Committee has the duties and responsibilities set forth in this Charter, the Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's consolidated financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Committee to ensure that the Corporation complies with all laws and regulations.

**Corporate Headquarters**

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