

Inscape Corporation
Management's Discussion and Analysis
For the three and nine months ended January 31, 2021

The following Management's Discussion and Analysis ("MD&A") of operating results and financial condition of Inscape Corporation and its subsidiaries ("Inscape" or "the Company") for the three and nine months ended January 31, 2021 should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the year ended April 30, 2020.

The discussion and analysis are as of March 4th, 2021 unless otherwise stated.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com or on our website at www.myinscape.com.

Non-GAAP Measures

In this MD&A, reference is made to EBITDA, which is not a measure of financial performance under International Financial Reporting Standards ("IFRS"). Inscape calculates EBITDA as earnings or loss before interest, taxes, depreciation and amortization. Management believes EBITDA is a useful measure that facilitates period-to-period operating comparisons and that some investors and analysts use it as well. This measure, as calculated by Inscape, does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other issuers.

Reference is also made to both adjusted net income or loss before taxes and adjusted EBITDA. Adjusted net income or loss before taxes excludes derivative fair value adjustments, unrealized exchange gains or losses, share-based compensation, severance and other non-recurring expenses such as gains or losses on disposal of capital assets and intangibles, restructuring expenses and proceeds from government subsidies and grants. Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization with the exclusion of derivative fair value adjustments, unrealized exchange gains or losses, share-based compensation, severance and other non-recurring expenses such as gains or losses on disposal of capital assets and intangibles, restructuring expenses and proceeds from government subsidies and grants. Management believes adjusted net income and loss before taxes and adjusted EBITDA are useful measures that facilitate period-to-period operating comparisons. The adjusted net loss before taxes and adjusted EBITDA are non-GAAP measures, which do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Forward-looking Statements

This report includes certain forward-looking statements that are based on the Company's best information and judgments as at the date of this report. Readers are cautioned not to place undue reliance on forward-looking statements found throughout this document. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, assumptions about the rate of economic growth in North America, growth expectations for the contract office furniture business and currency fluctuations.

These forward-looking statements include known and unknown risks, uncertainties, assumptions and other factors which may cause actual results or achievements to be materially different from those expressed or implied. The forward-looking statements are subject to risks and uncertainties that may cause the actual results to differ materially from those anticipated in the discussion (see "Risks and Uncertainties" for more information).

While management believes that the expectations expressed by such forward-looking statements are reasonable, we cannot assure that they will be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is

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not exhaustive. Furthermore, the Company will update its disclosure upon publication of each fiscal quarter's financial results and otherwise disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

Company Profile and Core Business

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

Since 1888, Inscape has been designing products and services that are focused on the future, so businesses can adapt and evolve without investing in their workspaces all over again. Our versatile portfolio includes systems furniture, storage, and walls – all of which are adaptable and built to last. Inscape's wide dealer network, showrooms in the United States and Canada, along with full service and support for our clients, enables us to stand out from the crowd. We make it simple. We make it smart. We make our clients wonder why they didn't choose us sooner.

The Company reports in two business segments, Office Furniture and Walls. The Office Furniture segment includes storage, benching, systems and seating solutions products. The Walls segment includes architectural and movable walls. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 95,000 square foot plant in Falconer, New York. The Falconer, New York plant, previously owned by Inscape, was sold and a majority portion leased back in the third quarter of fiscal 2020.

Financial Highlights

(unaudited, in thousands of Canadian dollars)

	Three Months Ended January 31,	
	2021	2020
Sales	\$ 11,625	\$ 17,376
Net (loss) income	\$ (1,038)	\$ 142
Basic and diluted (loss) earnings per share	\$ (0.07)	\$ 0.01
Adjusted net loss before taxes	\$ (2,191)	\$ (1,591)
Adjusted EBITDA	\$ (1,179)	\$ (738)
	Nine Months Ended January 31,	
	2021	2020
Sales	\$ 30,152	\$ 61,375
Net loss	\$ (1,390)	\$ (210)
Basic and diluted loss per share	\$ (0.10)	\$ (0.01)
Adjusted net loss before taxes	\$ (8,047)	\$ (2,875)
Adjusted EBITDA	\$ (4,994)	\$ (342)
	As at January 31,	
	2021	2020
Total assets	\$ 34,157	\$ 37,035
Total liabilities	\$ 26,992	\$ 20,299
Cash	\$ 1,227	\$ 2,722
Weighted average number of shares for basic and diluted EPS	14,380,701	14,380,701

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Overview

The third quarter of fiscal year 2021 ended with a net loss of \$1.0 million or 7 cents per share, compared with a net income of \$0.1 million or 1 cent per share for the same quarter of last year. The net results of both quarters included certain unrealized, non-cash expenses and one-time items that have significant impact on the net (loss) income per GAAP. With the exclusion of these items, the third quarter of fiscal 2021 had an adjusted net loss before taxes of \$2.2 million, compared with an adjusted net loss before taxes of \$1.6 million in the same quarter of the previous year. As at January 31, 2021 inventory was \$3.7 million, a decrease of \$2.2 million compared with \$6.0 million last year. There were \$0.3 million of inventory write-downs in the third quarter which resulted in lower margins and net income, as well as, lower EBITDA and Adjusted EBITDA.

The nine month period of fiscal year 2021 ended with a net loss of \$1.4 million or 10 cents per share, compared with the net loss of \$0.2 million or 1 cent per share for the same quarter of last year. Net results of both periods included certain unrealized, non-cash expenses and one-time items that have significant impact on the net (loss) income per GAAP. With the exclusion of these items, the nine month period of fiscal year 2021 had an adjusted net loss before taxes of \$8.0 million, compared with an adjusted net loss before taxes of \$2.9 million in the same period of the previous year. There were \$1.4 million of inventory write-downs in the nine month period which resulted in lower margins and net income, as well as, lower EBITDA and Adjusted EBITDA.

The adjusted net (loss) income before taxes and adjusted EBITDA are non-GAAP measures, which do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following is a reconciliation of net (loss) income before taxes calculated in accordance with GAAP to adjusted net (loss) income before taxes, the non-GAAP measure:

(in thousands)	Three Months Ended January 31,	
	2021	2020
Net (loss) income before taxes	\$ (1,016)	\$ 142
Adjust non-operating or unusual items:		
Unrealized gain on derivatives	(159)	(6)
Unrealized (gain) loss on foreign exchange	(184)	9
Gain on disposal of PP&E and intangibles	(232)	(1,821)
Other income – government grant	(610)	-
Stock-based compensation	(3)	73
Severance obligation	13	12
Adjusted net loss before taxes	\$ (2,191)	\$ (1,591)

(in thousands)	Nine Months Ended January 31,	
	2021	2020
Net loss before taxes	\$ (1,361)	\$ (154)
Adjust non-operating or unusual items:		
Unrealized gain on derivatives	(3,416)	(1,038)
Unrealized loss on foreign exchange	111	65
Gain on disposal of PP&E and intangibles	(232)	(1,769)
Other income – government grant	(3,392)	-
Stock based compensation	199	(277)
Severance obligation	44	298
Adjusted net loss before taxes	\$ (8,047)	\$ (2,875)

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The following is a reconciliation of net (loss) income before taxes calculated in accordance with GAAP to EBITDA and adjusted EBITDA, the non-GAAP measures:

(in thousands)	Three Months Ended January 31,	
	2021	2020
Net (loss) income before taxes	\$ (1,016)	\$ 142
Depreciation	492	504
Amortization	520	349
EBITDA	\$ (4)	\$ 995
Adjust non-operating or unusual items:		
Unrealized gain on derivatives	\$ (159)	\$ (6)
Unrealized (gain) loss on foreign exchange	(184)	9
Gain on disposal of PP&E and intangibles	(232)	(1,821)
Other income – government grant	(610)	-
Stock-based compensation	(3)	73
Severance obligation	13	12
Adjusted EBITDA	\$ (1,179)	\$ (738)

(in thousands)	Nine Months Ended January 31,	
	2021	2020
Net loss before taxes	\$ (1,361)	\$ (154)
Interest	(1)	(7)
Depreciation	1,476	1,556
Amortization	1,578	984
EBITDA	\$ 1,692	\$ 2,379
Adjust non-operating or unusual items:		
Unrealized gain on derivatives	\$ (3,416)	\$ (1,038)
Unrealized loss on foreign exchange	111	65
Gain on disposal of PP&E and intangibles	(232)	(1,769)
Other income – government grant	(3,392)	-
Stock-based compensation	199	(277)
Severance obligation	44	298
Adjusted EBITDA	\$ (4,994)	\$ (342)

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Results of Operations

Sales

(in thousands)	Fiscal 2021		Fiscal 2020		Change
Three Months Ended January 31	\$	11,625	\$	17,376	(33.1%)
Nine Months Ended January 31	\$	30,152	\$	61,375	(50.9%)

Sales for the three and nine months ended January 31, 2021 were 33.1% and 50.9% lower than the same periods of the previous year due to the economic impact of the COVID-19 pandemic ("COVID-19"), which resulted in lower Furniture sales of 21.2% and 48.6% and lower Walls sales of 62.6% and 57.1%, respectively.

Gross Profit

(in thousands)	Fiscal 2021 % of Sales		Fiscal 2020 % of Sales		
Three Months Ended January 31	\$	2,658	22.9%	\$	4,371
Nine Months Ended January 31	\$	6,320	21.0%	\$	16,914

Gross profit margin for the three and nine months ended January 31, 2021 decreased by 2.3 and 6.6 percentage points, respectively, over the same periods last year as a result of the lower sales volume due to COVID-19. In addition, for the three and nine months ended January 31, 2021, excess inventory totaling \$0.3 million and \$1.4 million, respectively, relating to discontinued product lines and obsolescence were written off during the periods. The Company continues to identify initiatives to achieve cost efficiencies and improved margins as sales levels return to normal. However, we wish to note that gross profit margins without the effects of these excess inventory write-offs would have been 25.6% and 25.4% for the three and nine months ended January 31, 2021, respectively.

Selling, General & Administrative Expenses (SG&A)

(in thousands)	Fiscal 2021 % of Sales		Fiscal 2020 % of Sales		
Three Months Ended January 31	\$	4,859	41.8%	\$	6,047
Nine Months Ended January 31	\$	14,611	48.5%	\$	19,817

SG&A for the three and nine months ended January 31, 2021 were 41.8% and 48.5% of sales, compared to 34.8% and 32.3% for the same periods of last year. Despite the perception of the higher ratio percentages, the \$1.2 million and \$5.2 million actual decrease in SG&A expenses resulted from workforce reductions, decrease in marketing initiatives and lower selling, travel and entertainment expenses. Collectively, these actions are largely the results of measures adopted by management to manage cost during COVID-19. In the current fiscal, lower sales volumes impacted the overall higher SG&A to sales ratio.

Net (loss) income

(in thousands)	Fiscal 2021 % of Sales		Fiscal 2020 % of Sales		
Three Months Ended January 31	\$	(1,038)	(9.0%)	\$	142
Nine Months Ended January 31	\$	(1,390)	(4.6%)	\$	(210)

The third quarter of the current fiscal year ended with a net loss of \$1 million, compared to net income of \$0.1 million for the same quarter of the previous fiscal year. Both reporting periods had

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several unrealized, unusual and non-controllable items that in total had a very significant impact on the net results. With the exclusion of these items, the third quarter of fiscal 2021 had an adjusted net loss before taxes of \$2.2 million, compared with an adjusted net loss before taxes of \$1.6 million for the third quarter of fiscal 2020. Net income without the effects of the excess inventory write-offs in the third quarter would have been (\$0.7 million) compared to last year of \$0.1 million.

The nine month period ended with a net loss of \$1.4 million, compared to net loss of \$0.2 million for the same quarter of the previous fiscal year. Both reporting periods had several unrealized, unusual and non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these items, the nine month period of fiscal year 2021 had an adjusted net loss before taxes of \$8.0 million, compared with an adjusted net loss before taxes of \$2.9 million in the same period of last year. Net income without the effects of the excess inventory write-offs in the nine month period would have been (\$0.04 million) compared to last year of (\$0.2 million).

Income Taxes

In accordance with IFRS requirements, deferred tax benefits relating to tax loss carry-forward were not recognized in the consolidated financial statements in the third quarter of fiscal 2021.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the previous eight quarters from April 30, 2019 through to January 31, 2021 is provided below:

Selected Quarterly information¹ (in thousands, except per share amounts)
(Unaudited)

	Quarters Ended			
	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020
Sales	\$ 11,625	\$ 7,157	\$ 11,370	\$ 14,443
Gross profit	\$ 2,658	\$ 232	\$ 3,430	\$ 3,877
Gross profit %	22.9%	3.2%	30.2%	26.8%
Net (loss) income	\$ (1,038)	\$ (3,732)	\$ 3,380	\$ (5,196)
Basic and diluted (loss) income per share	\$ (0.07)	\$ (0.26)	\$ 0.24	\$ (0.36)
Adjusted net loss before taxes	\$ (2,191)	\$ (4,659)	\$ (1,197)	\$ (2,288)
Adjusted EBITDA	\$ (1,179)	\$ (3,630)	\$ (185)	\$ (1,038)

	Quarters Ended			
	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
Sales	\$ 17,376	\$ 23,322	\$ 20,677	\$ 18,629
Gross profit	\$ 4,371	\$ 6,765	\$ 5,778	\$ 4,090
Gross profit %	25.2%	29.0%	27.9%	22.0%
Net income (loss)	\$ 142	\$ 392	\$ (744)	\$ (4,420)
Basic and diluted income (loss) per share	\$ 0.01	\$ 0.03	\$ (0.05)	\$ (0.31)
Adjusted net (loss) gain before taxes	\$ (1,591)	\$ 230	\$ (1,515)	\$ (3,349)
Adjusted EBITDA	\$ (738)	\$ 1,076	\$ (680)	\$ (2,723)

¹Quarterly earnings per share may not add up to year-to-date earnings per share due to rounding

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Liquidity and Capital Resources

Cash Flow Summary (in thousands)			
Three Months Ended January 31,		2021	2020
Net cash flow (used in) generated from:			
Operating activities before changes in working capital	\$	(503)	\$ (683)
Net change in working capital		(515)	(3,439)
Investing activities		123	4,250
Financing activities		(413)	-
Foreign exchange gain (loss) on cash		76	(69)
Net (decrease) increase in cash		(1,232)	59
Cash, beginning of period		2,459	2,663
Cash, end of period	\$	1,227	\$ 2,722

The third quarter of the current fiscal year, ended with a cash outflow from operations (before changes in working capital) of \$0.5 million, compared to an outflow of \$0.7 million for the same quarter last year. This is largely attributable to the current quarter's net loss of \$1.0 million, due to low sales levels.

Net decrease in working capital was \$0.5 million in the current quarter compared to a net decrease of \$3.4 million in the third quarter of last year. Prior year's \$3.4 million decrease resulted primarily from the settlement of accounts payable.

Net increase in investing activities was related to cash proceeds of \$0.3 million received from the disposal of capital assets during the current quarter. The prior year included \$4.4 million proceeds from the sale and lease back and sale of the DC Rollform business.

Net cash outflow for financing activities of \$0.4 million related to repayment of the principal portion of the lease liabilities.

Cash Flow Summary (in thousands)			
Nine Months Ended January 31,		2021	2020
Net cash flow used in:			
Operating activities before changes in working capital	\$	(2,565)	\$ (595)
Net change in working capital		87	(3,691)
Investing activities		(545)	3,880
Financing activities		(1,385)	-
Foreign exchange loss on cash		(250)	(137)
Net decrease in cash		(4,658)	(543)
Cash, beginning of period		5,885	3,265
Cash, end of period	\$	1,227	\$ 2,722

The nine month period ended with cash outflow from operations (before changes in working capital) of \$2.6 million compared to the same period last year's outflow of \$0.6 million, primarily due to the recognition of unrealized gains on derivative contracts as the Canadian dollar revalued against the U.S. dollar.

Net increase in working capital was \$0.1 million in the current year compared to a net decrease of \$3.7 million for the same period last year. Prior year's \$3.7 million decrease resulted primarily of higher accounts payable settlements.

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Net cash outflow for investing activities of \$0.5 million compared to a net cash inflow of \$3.9 million in the prior year. The current year cash outflow included the first tranche of a major re-tooling investment into laser machinery. The prior year's cash inflow of \$3.9 million from investing activities consisted of \$4.4 million proceeds from the sale and leaseback and sale of the DC Rollform business.

Net cash outflow for financing activities of \$1.4 million related to repayment of the principal portion of the lease liabilities.

Credit Facility

The Company has amended its Credit Agreement with its Bankers as of January 27, 2021. The amended agreement provides for a demand revolving operating credit limit of \$3.0 million, a provision for Contingent Credit Limit for foreign exchange contracts of US\$5.0 million and a revised set of Financial Covenants. The interest rate on the demand operating credit facility is Prime Rate plus 1.0% for Canadian dollar loans, US Base Rate plus 1.0% for US dollar loans, 2.5% for Canadian dollar Banker's Acceptance and 2.5% for US dollar Libor loans. The agreement is secured by the Company's property based on its accounts receivable and inventory (borrowing base).

The terms of the revised financial covenants are:

1. The Current Ratio shall not be less than 1.25:1.00 at any time, to be calculated and tested quarterly.
2. The Total Liabilities to Effective Tangible Net Worth Ratio shall not be greater than (i) 3.00:1.00 for the fiscal quarter ending January 31, 2021, and (ii) 3.50:1.00 for the fiscal quarter ending April 30, 2021 and each fiscal quarter thereafter, in each case, at any time, calculated and tested quarterly.
3. The Fixed Charge Coverage Ratio shall not be less than (i) 1.00:1.00 for the fiscal year ending April 30, 2022 at any time, calculated and tested annually, and (ii) 1.00:1.00 for the fiscal quarter ending July 31, 2022 and each fiscal quarter thereafter, at any time, calculated quarterly on a trailing twelve (12) month basis.

As at January 31, 2021, the Company was in full compliance with the required covenants and has not drawn on the demand credit facility (2020 – not drawn).

Contractual Obligations

The following is a summary of the Company's contractual obligations as at January 31, 2021:

(in millions)		Total	1 year or less	1-5 years	After 5 years
Lease liabilities	\$	9.4	\$ 0.6	\$ 3.4	\$ 5.4
Foreign exchange contracts		30.2	24.2	6.0	-
	\$	39.6	\$ 24.8	\$ 9.4	\$ 5.4

See "Financial Instruments" discussed below for the Company's obligations under foreign exchange contracts.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than the ones discussed above.

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Share Capital

During the third quarter of fiscal 2021, share transactions were as follows:

	Class A		Class B		Total	
	<u>Multiple Voting Shares</u>		<u>Subordinate Voting Shares</u>			
	Number of shares	Share Capital⁽²⁾	Number of shares	Share Capital	Number of shares	Share Capital
Balance, April 30, 2020	3,345,881	\$ 237	11,034,820	\$ 52,631	14,380,701	\$ 52,868
Conversion of multiple voting shares into subordinate voting shares ⁽¹⁾	(3,345,881)	(237)	3,345,881	237	-	-
Balance, January 31, 2021	-	\$ -	14,380,701	\$ 52,868	14,380,701	\$ 52,868

⁽¹⁾ On October 30, 2020, the Class A multiple voting shares previously held by Bhayana Management Ltd. and The Madan and Raksha M. Bhayana Family Foundation (collectively, the "Bhayana Family"), were converted into Class B subordinate voting shares. Subsequently, by way of a private placement, Pender Growth Fund ("PGF"), an unrelated party, entered into a Share Purchase Agreement (the "Purchase Agreement") with the Bhayana Family pursuant to which PGF purchased a total of 6,886,981 Class B subordinate voting shares. On November 18, 2020, PGF completed the second and final tranche of the share purchase transaction, and holds in aggregate with other funds managed by PenderFund Capital Management Ltd. 7,927,321 subordinate voting shares, or approximately 55.12% of the total issued and outstanding subordinate voting shares of Inscape.

⁽²⁾ All share capital amounts are stated in thousands.

Related Party Transactions

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Salaries and short-term benefits	\$ 607	\$ 645	\$ 1,403	\$ 1,753
Post-employment benefits	5	11	16	34
Share-based compensation	(3)	73	199	(277)
	\$ 609	\$ 729	\$ 1,618	\$ 1,510

Other Related Party Transactions

As a result of the October 30, 2020 purchase agreement between the Bhayana Family and PGF, PGF became the parent company of Inscape Corporation and holds and/or controls 55.12% of the total issued and outstanding subordinate voting shares of Inscape.

Significant Accounting Judgements, Estimates and Assumptions

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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Significant Estimates and Judgments in Applying Accounting Policies

The following are the estimates and judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Significant Judgments

The Company assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortized costs, including other receivables. For trade and other receivables only, the Company applies the simplified approach permitted by IFRS 9, which requires the expected lifetime losses (based on management's judgement and review of known exposures, credit worthiness, and collection experience) to be recognized from initial recognition of the receivables.

Reserve for inventory is based on the aging of inventory and management's judgement of product life cycles in identifying obsolete items.

Reserve for warranty is based on management's judgment and review of any known exposures and historical claim experience.

Percentage of completion percentages are based on Inscape's onsite project management estimate of job progress.

Identification of cash generating units for the purposes of performing impairment test of assets is based on management's judgment of what constitutes the lowest group of assets that can generate cash flows largely independent of other assets.

Determination to not recognize deferred tax assets is based on management's judgment of the ability of the Company to achieve sufficient taxable income to use the deferred tax assets.

Significant Estimates

Estimated useful lives and residual values of intangible assets, property, plant and equipment are based on management's experience, the intended usage of the assets and the expected technological advancement that may affect the life cycle and residual values of the assets.

Defined benefit pension obligations are based on management's best estimates on the long-term investment return on pension fund assets, the discount rate of obligations, mortality and the future rate of salary increase.

Liability for the Company's performance and restricted share units is based on management's best estimate of the Company's financial performance during the vesting period of the performance and restricted share units.

Determination of the company's fair value of the principal assets of each CGU less the costs to sell the assets is used to perform an impairment test of the assets.

New Accounting Standards Adopted

IFRS 16 Amendment

The Company has elected to apply the practical expedient under the amendment to IFRS 16 which provides optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic.

As required by IAS 34, the nature and effect of these changes are disclosed below.

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Impact of application of IFRS 16 amendment was immaterial to the Company's financial results. The Company benefited from three lease payment deferrals that are being repaid over six months.

Financial Instruments

The Company's activities expose it primarily to the financial risks of changes in the U.S. 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 U.S. 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 January 31, 2021, the Company had outstanding US dollar hedge contracts with settlement dates from February 2021 to May 2022. During the quarter, the Company entered into a new forward contracts with a nominal value of US \$13.0 to \$20.8 million. The total notional amounts under the contracts are US \$20.5 to \$30.2 million (2020 - \$37.0 to \$46.3 million). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell US dollars at rates ranging from \$1.2700 CAD/USD to \$1.4020 CAD/USD (2020 - \$1.240 CAD/USD to \$1.450 CAD/USD). These contracts had a mark-to-market unrealized gain of \$25 thousand (US \$19 thousand) as at January 31, 2021 (2020 – unrealized loss of \$0.4 million or US \$0.3 million), which was recognized on the Interim Condensed Consolidated Statements 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 unrealized gains or losses to realized gains or losses are recognized in the Interim Condensed Consolidated Statements of Operations as unrealized gain or loss on derivatives.

Risks and Uncertainties

The following risks and uncertainties may adversely affect the Company's business, operating results, cash flows and financial condition. These may not be the Company's only risks and uncertainties. Other unknown or currently insignificant risks and uncertainties not discussed below can have an adverse impact on the Company's business and financial performance.

Natural Disasters and Pandemics

Extraordinary weather conditions, or natural disasters, such as hurricanes, tornadoes, floods, droughts, tsunamis, typhoons, and earthquakes and pandemics could disrupt operations at our facilities or those of our suppliers and customers and increase our cost of sales and other operating expenses.

The Company is monitoring the outbreak of COVID-19. Should the outbreak become more widespread in Canada and the United States and adversely affect general economic conditions, it may impact demand for the Company's products and negatively affect revenue and profitability.

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.

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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 building a distribution network that is aligned with Inscape, targeting committed dealers who lead with Inscape's product lines and automating processes to keep improving our productivity, quality and customer service.

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 in a highly competitive environment. 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.

US Dollar Exchange Rate

The US is the main market for the Company. Fluctuations in the US/Canadian dollar exchange rate have a significant impact on the operating results, cash flows and financial condition of the Company. One method the Company uses to manage its foreign currency exposure is through the use of US dollar hedge instruments. The hedge instruments provide the Company with an opportunity to lock in the US currency conversion rate at a prevailing hedge rate to facilitate the business planning process with pre-determined exchange rate exposure. However, the instruments do not completely eliminate the effects of exchange rate fluctuations. To minimize the effect of exchange rate fluctuations, the Company endeavors to create natural hedges through increasing US suppliers where appropriate and seeks to increase Canadian dollar sales.

Access to the US Markets

The Company depends heavily on unrestricted access to the US 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 US 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 US statutes, regulations, procurement requirements and border crossing restrictions. Where appropriate, the Company publicizes its extensive investment in the US and contribution to the economy by operating a production plant in New York State, providing employment opportunities in different states and purchasing from US 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 its relationship with the Company 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.

Inscape Corporation
Management's Discussion and Analysis
For the three and nine months ended January 31, 2021

Effectiveness of Growth Strategy Implementation

The Company seeks to grow its business and market share by building committed distribution, developing products and applications to meet customer needs, 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.

Controls and Procedures

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of DC&P and have found that the Company's DC&P are effective at the financial year-end.

Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of ICFR and have found that the Company's ICFR is effective in design and operation at the financial year end.

During the year ended April 30, 2020, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.