

Inscape Corporation
Management's Discussion and Analysis
For the three and six months ended October 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 six months ended October 31, 2021 should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the year ended April 30, 2021.

The discussion and analysis are as of December 9, 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 (earnings before interest, taxes, depreciation and amortization), 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 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 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 (TMX). The Company's registered office is at 67 Toll Road, Holland Landing, Ontario.

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 all of 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 reportable operating segments. The Furniture segment includes storage, benching, systems and seating products. The Walls segment includes architectural and movable walls. The Company's products are manufactured in two facilities: a 308,000 square feet plant in Holland Landing, Ontario, and a 30,000 square feet plant in Jamestown, New York, USA.

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OVERVIEW

The second quarter of fiscal year 2022 ended with a net loss of \$2.6 million or 18 cents per share, compared with a net loss of \$3.7 million or 0.26 cents 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 per GAAP. With the exclusion of these items, the second quarter of fiscal year 2022 had an adjusted net loss before taxes of \$3.3 million, compared with an adjusted net loss before taxes of \$4.7 million in the same quarter of the previous year.

The six-month period of fiscal years 2022 ended with a net loss of \$6.0 million or 42 cents per share, compared with a net loss of \$0.4 million or 2 cents per share for the same period 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 per GAAP. With the exclusion of these items, the six-month period of fiscal year 2022 had an adjusted net loss before taxes of \$7.6 million, compared with an adjusted net loss before taxes of \$5.9 million in the same period of the previous year.

UNAUDITED FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2021	2020	2021	2020
Sales	\$ 9,683	7,157	\$ 17,541	18,527
Net loss	\$ (2,623)	(3,732)	\$ (6,009)	(352)
Basic and diluted loss per share	\$ (0.18)	(0.26)	\$ (0.42)	(0.02)
Adjusted net loss before taxes	\$ (3,299)	(4,659)	\$ (7,620)	(5,856)
Adjusted EBITDA	\$ (2,179)	(3,630)	\$ (5,449)	(3,815)

	As at October 31, 2021	As at April 30, 2021
Total assets	\$ 40,222	\$ 41,972
Total liabilities	\$ 32,402	\$ 28,136
Cash	\$ 948	\$ 3,736
Restricted cash	\$ 2,787	\$ 2,764
Weighted average number of shares for basic and diluted EPS	14,380,701	14,380,701

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RESULTS OF OPERATIONS

Sales

(in thousands)

		2021		2020	Change
Three Months Ended October 31	\$	9,683	\$	7,157	35.3%
Six Months Ended October 31	\$	17,541	\$	18,527	-5.3%

Sales for the three months ended October 31, 2021, were 35.3% higher than the same quarter of the previous year due to increases in the number of Walls projects in the second quarter of fiscal year 2022. During the quarter Walls sales increased by 127.9% and Furniture sales by 9.4% over the same quarter of prior year.

Sales volumes for the six months ended October 31, 2021, were relatively flat compared to the same period of the prior year, due to a slower-than-expected North American economic recovery, and a delay in the return to work plans due to the COVID-19 pandemic. However, unfavourable exchange rate resulted in lower sales value, with Furniture recording a 9.1% decline, partially offset by a 5% increase at Walls.

Gross Profit

(in thousands)

		2021	% of sales		2020	% of sales
Three Months Ended October 31	\$	2,207	22.8%	\$	232	3.2%
Six Months Ended October 31	\$	2,814	16.0%	\$	3,662	19.8%

Gross profit margin as a percentage of sales was 22.8% for the second quarter of fiscal year 2022, a significant increase of 1960 basis points over the 3.2% for the same period last year. This improved margin was a result of higher sales volumes as markets recovered in the current fiscal, over which to spread the fixed overhead costs. The Company continues to identify initiatives to achieve cost efficiencies and improve margins as sales levels return to normal.

For the six months ended October 31, 2021, gross profit margin, as a percentage of sales was 16.0%, a decline of 380 basis points from the 19.8% for the same period last year, attributed to the impact of unfavourable exchange rates on the Company's US denominated sales.

Selling, General & Administrative Expenses (SG&A)

(in thousands)

		2021	% of sales		2020	% of sales
Three Months Ended October 31	\$	5,086	52.5%	\$	5,107	71.4%
Six Months Ended October 31	\$	9,771	55.7%	\$	9,752	52.6%

SG&A for the three and six months ended October 31, 2021, were 52.5% and 55.7% of sales, compared to 71.4% and 52.6% for the same periods of last year. The total SG&A expenses for the six months ended October 31, 2021, were relatively flat with the comparative period, due to compensating effects of cost movements and management initiatives.

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Non-Operating Income
(in thousands)

		2021	2020	Change
Three Months Ended October 31	\$	(258)	\$ (1,148)	-77.5%
Six Months Ended October 31	\$	(951)	\$ (5,745)	-83.4%

Net non-operating income for the three and six months ended October 31, 2021, were 77.5% and 83.4% lower, compared to the same periods in prior year.

The decrease for the quarter was primarily a result of lower unrealized gain on derivatives of \$0.5 million and net interest expense of \$0.4 million.

The decrease for the six months ended October 31, 2021, resulted from an unrealized loss on derivatives of \$0.4 million compared to an unrealized gain of \$3.3 million in the same period of prior year, reduction in government subsidies of \$0.8 million and net interest expense of \$0.8 million.

Net Loss Before Taxes
(in thousands)

		2021	% of sales	2020	% of sales
Three Months Ended October 31	\$	(2,623)	-27.1%	\$ (3,732)	-52.1%
Six Months Ended October 31	\$	(6,009)	-34.3%	\$ (352)	-1.9%

The second quarter of the current fiscal year ended with a net loss before taxes of \$2.6 million, compared to a net loss before taxes of \$3.7 million for the same quarter of the previous fiscal year. The recovery is primarily attributed to a \$2.0 million increase in gross margin, driven by higher sales volumes, partially offset by interest expense on the revolving credit facility and a net movement in other non-operating activities.

With the exclusion of the items previously mentioned, the second quarter of fiscal year 2022 had an adjusted net loss before taxes of \$3.3 million, compared with an adjusted net loss before taxes of \$4.7 million for the second quarter of fiscal year 2021.

The six months ended October 31, 2021, ended with a net loss before taxes of \$6.0 million, compared to a net loss before taxes of \$0.4 million for the same period of the previous fiscal year. The decline is primarily driven by lower sales revenues and a decrease in non-operating income as aforementioned.

With the exclusion of the non-operating items previously mentioned, the six months ended October 31, 2021, had an adjusted net loss before taxes of \$7.6 million, compared with an adjusted net loss before taxes of \$5.9 million for the same period in prior year.

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

(in thousands)	Three Months Ended October 31,		Six Months Ended October 31,	
	2021	2020	2021	2020
Net loss before taxes	\$ (2,621)	\$ (3,727)	\$ (6,006)	\$ (345)
Adjust non-operating or unusual items:				
Unrealized (gain) loss on derivatives	(24)	(519)	396	(3,257)
Unrealized (gain) loss on foreign exchange	(79)	(39)	(178)	295
Other income – government grant	(598)	(589)	(1,978)	(2,782)
Stock-based compensation	15	212	122	202
Severance obligation	8	3	24	31
Adjusted net loss before taxes	\$ (3,299)	\$ (4,659)	\$ (7,620)	\$ (5,856)

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

(in thousands)	Three Months Ended October 31,		Six Months Ended October 31,	
	2021	2020	2021	2020
Net loss before taxes	\$ (2,621)	\$ (3,727)	\$ (6,006)	\$ (345)
Interest expense (income)	443	(1)	809	(1)
Depreciation	382	505	772	984
Amortization	295	525	590	1,058
EBITDA	\$ (1,501)	\$ (2,698)	\$ (3,835)	\$ 1,696
Adjust non-operating or unusual items:				
Unrealized (gain) loss on derivatives	\$ (24)	\$ (519)	\$ 396	\$ (3,257)
Unrealized (gain) loss on foreign exchange	(79)	(39)	(178)	295
Other income – government grant	(598)	(589)	(1,978)	(2,782)
Stock-based compensation	15	212	122	202
Severance obligation	8	3	24	31
Adjusted EBITDA	\$ (2,179)	\$ (3,630)	\$ (5,449)	\$ (3,815)

Income Taxes

In accordance with IFRS requirements, deferred income tax benefits relating to income tax loss carry-forwards were not recognized in the interim condensed consolidated financial statements in the second quarter of fiscal year 2022.

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Summary of Quarterly Results

Select unaudited quarterly financial information for the previous eight quarters from January 31, 2020 through to October 31, 2021 is provided below:

Unaudited Quarterly information¹

(in thousands, except per share amounts)

	Quarter Ended			
	October 31, 2021	July 31, 2021	April 30, 2021	January 31, 2021
Sales	\$ 9,683	\$ 7,858	\$ 8,051	\$ 11,625
Gross profit	\$ 2,207	\$ 607	\$ 614	\$ 2,658
Gross profit %	22.8%	7.7%	7.6%	22.9%
Net (loss) income	\$ (2,623)	\$ (3,386)	\$ 499	\$ (1,038)
Basic and diluted (loss) income per share	\$ (0.18)	\$ (0.24)	\$ 0.03	\$ (0.07)
Adjusted net loss before taxes	\$ (3,299)	\$ (4,321)	\$ (4,906)	\$ (2,191)
EBITDA	\$ (1,501)	\$ (2,334)	\$ (1,326)	\$ (4)
Adjusted EBITDA	\$ (2,179)	\$ (3,270)	\$ (3,876)	\$ (1,179)

	Quarter Ended			
	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020
Sales	\$ 7,157	\$ 11,370	\$ 14,443	\$ 17,376
Gross profit	\$ 232	\$ 3,430	\$ 3,877	\$ 4,371
Gross profit %	3.3%	30.2%	26.8%	25.2%
Net (loss) income	\$ (3,732)	\$ 3,380	\$ (5,196)	\$ 142
Basic and diluted (loss) income per share	\$ (0.26)	\$ 0.24	\$ (0.36)	\$ 0.01
Adjusted net loss before taxes	\$ (4,659)	\$ (1,197)	\$ (2,288)	\$ (1,591)
EBITDA	\$ (2,698)	\$ 4,394	\$ (3,987)	\$ 995
Adjusted EBITDA	\$ (3,630)	\$ (185)	\$ (1,038)	\$ (738)

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 October 31,	
	2021	2020
Net cash flow used in:		
Operating activities before changes in working capital	\$ (1,360)	\$ (2,884)
Net change in working capital	(93)	205
Investing activities	(776)	(535)
Financing activities	1,539	(386)
Foreign exchange gain on cash	41	26
Net decrease in cash	(649)	(3,574)
Cash, beginning of period	1,597	6,033
Cash, end of period	\$ 948	\$ 2,459

The three months ended October 31, 2021, had a cash outflow from operations (before changes in working capital) of \$1.4 million, compared to an outflow of \$2.9 million for the same period of the previous fiscal year. The decrease in cash outflow is largely attributable to the increase in sales during the second quarter of fiscal year 2022 compared to the same quarter of the previous year.

For the three months ended October 31, 2021, cash outflow from investing activities for the second quarter comprised of \$0.8 million in plant and equipment additions, compared to \$0.5 million in prior year. The current quarter included investments in an automation tower for the Holland Landing plant, and various capital projects in progress.

Net cash inflow from financing activities of \$1.5 million was a direct result of net proceeds received from the revolving credit facility, partially offset by principal repayments for lease contracts and settlement of financing fees.

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Cash Flow Summary
(in thousands)

	Six Months Ended October 31,	
	2021	2020
Net cash flow used in:		
Operating activities before changes in working capital	\$ (3,324)	\$ (2,062)
Net change in working capital	(1,375)	602
Investing activities	(891)	(668)
Financing activities	2,612	(972)
Foreign exchange gain (loss) on cash	190	(326)
Net decrease in cash	(2,788)	(3,426)
Cash, beginning of period	3,736	5,885
Cash, end of period	\$ 948	\$ 2,459

The six months ended October 31, 2021, had a cash outflow from operations (before changes in working capital) of \$3.3 million, compared to an outflow of \$2.1 million for the same period of the previous fiscal year. The outflow is largely attributable to the impact of unfavourable exchange rates on US denominated sales for the 2022 fiscal period.

Net decrease in working capital was \$1.4 million compared to a net increase of \$0.6 million in the same period of last year. The net decrease resulted primarily from the variation in the settlement of accounts payable, collection of outstanding receivables and payment of interest on the revolving credit facility.

Cash outflow from investing activities for the six months ended October 31, 2021, comprised of \$0.9 million compared to \$0.7 million in prior year in plant and equipment additions, including capital investments in leasehold improvements, tooling, software, Walls office furniture, and various capital projects in progress.

Net cash inflow from financing activities of \$2.6 million compared to a cash outflow of \$1.0 million in the previous fiscal period, was a direct result of net proceeds received from the revolving credit facility, partially offset by the repayments for the principal portion of lease liabilities.

Credit Facility

On April 29, 2021 the Company finalized a new revolving committed credit facility with FrontWell Capital Partners Inc. with credit availability of the lesser of \$15,000 and availability, pursuant to the Borrowing Base calculation representing accounts receivable, inventories, land and building. The facility matures on the earlier of April 29, 2022, and the date of the completion of the sale of the property classified as assets held for sale. The interest rate on the demand operating credit facility is Prime Rate plus 8.75% for Canadian dollar loans and US Base Rate plus 8.75% for US dollar loans. The agreement is secured by the Company's accounts receivable, inventories, land and building.

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

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Contractual Obligations

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

(in millions)	Payments due by period			
	Total	1 year or less	1-5 years	After 5 years
Lease liabilities	\$ 9.9	\$ 1.0	\$ 3.8	\$ 5.1
Revolving credit facility	11.4	11.4	-	-
Foreign exchange contracts	(0.2)	(0.2)	-	-
	\$ 21.1	\$ 12.2	\$ 3.8	\$ 5.1

Lease contracts are primarily in respect of the Company's three showrooms and US manufacturing facility. See "Financial Instruments" discussed below for the Company's obligations for foreign exchange contracts.

Share Capital

The Company has 14,380,701 Class B subordinated voting shares outstanding at October 31, 2021. The Class B subordinated voting shares are listed on the Toronto Stock Exchange and carry one vote each.

Related Party Transactions

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

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

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CHANGE IN ACCOUNTING POLICIES

There were no changes in accounting policies which impacted the Company's business.

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 to be relevant. Actual results may differ from these estimates.

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, that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements.

Significant Judgments

The Company assesses on a forward-looking basis the expected credit losses ("ECL") 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.

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

Provision 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 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.

COVID-19

COVID-19 continues to disrupt global health and the economy. The Company continues to monitor developments and mitigate risks related to COVID-19 and the impact on the business operations, supply chain, and most importantly the health and safety of its employees.

As an evolving risk, the duration and full financial effect of COVID-19 is unknown at this time. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly affect the Company's operations, financial results and condition in future periods. Therefore, the amounts recorded in the interim condensed consolidated financial statements are based on the latest reliable information available to management at the time these interim condensed consolidated financial statements were prepared, reflecting the information and conditions to date. However, given the level of uncertainty caused by COVID-19, these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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Assets Held for Sale

The Company's accounting policy for assets held for sale is described in the notes to the interim condensed consolidated financial statements. In applying this policy, judgment is required in determining whether sale of certain assets is highly probable, which is a necessary condition for being presented within assets held for sale.

Government Assistance

Government assistance, including the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS"), are recorded in the interim condensed consolidated financial statements as described in note 2, significant accounting policies. In applying this policy, judgment is required in determining whether government grants will be received and whether the Company will comply with conditions attached to such grants.

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 adjustments.

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 cash-generating unit less the costs to sell the assets is used to perform an impairment test of the assets.

FINANCIAL INSTRUMENTS

The Company enters into a variety of derivative financial instruments to hedge the exchange rate risk arising on the anticipated sales to the United States. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors (the "Board"). Compliance with policies and exposure limits is reviewed by the Board on a regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

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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

Extreme weather conditions; natural disasters, such as hurricanes, tornadoes, floods, droughts, tsunamis, typhoons, earthquakes; and pandemics can disrupt operations at the Company's facilities or those of its suppliers and customers, resulting in increased cost of sales and operating expenses.

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 its products to attract new customers, launching 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. Inscape's main competitors include global companies with strong brand 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 its competitors. The Company competes on product design, functionality, innovation and customer service. The Company's success depends on building a distribution network that is aligned with Inscape strategic plan, targeting committed dealers who lead with Inscape's product lines and automating processes to keep improving 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 dollar to 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, hedge 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 by increasing US suppliers where appropriate and seeks to increase Canadian dollar sales.

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Access to US Markets

The Company depends heavily on unrestricted access to US markets as a significant portion of the Company's sales is derived from the US. The Company's business, operating results, cash flows and financial condition will be seriously affected if access to 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 US government. The Company closely monitors developments in 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 and showrooms in three major cities, providing employment opportunities for the workforce and business for suppliers.

Effectiveness of Market Representatives

The Company relies on the effectiveness of independent market representatives to market its products to customers. A market representative may choose to terminate their 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 Inscape's business in the affected market. The Company manages this risk by maintaining strong connection to performing representatives at the regional senior management level, and performing regular assessments of the effectiveness of representatives.

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 CEO and the CFO (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 period.

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.

Inscape Corporation
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For the three and six months ended October 31, 2021

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 quarter ended October 31, 2021, 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 on 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.