# Inscape Corporation
# Management's Discussion and Analysis
# For the three and nine months ended January 31, 2022

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, 2022 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 March 10, 2022 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 property, plant and equipment 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 property, plant and equipment and intangibles, restructuring expenses and proceeds from government subsidies and grants. Management believes adjusted net income or 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 not exhaustive. Furthermore, the Company will update its disclosure upon publication of each fiscal quarter’s financial results and otherwise disclaims any obligation 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 313,000 square feet plant in Holland Landing, Ontario, and a 30,000 square feet plant in Jamestown, New York, USA.

## OVERVIEW

The third quarter of fiscal year 2022 ended with a net income of $4.8 million or 34 cents per share, compared with a net loss of $1.0 million or negative 7 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 income per GAAP. With the exclusion of these items, the third quarter of fiscal year 2022 had an adjusted net loss before taxes of $4.2 million, compared with an adjusted net loss before taxes of $2.2 million in the same quarter of the previous year.

The nine-month period of fiscal years 2022 ended with a net loss of $1.2 million or negative 8 cents per share, compared with a net loss of $1.4 million or negative 10 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 nine-month period of fiscal year 2022 had an adjusted net loss before taxes of $11.8 million, compared with an adjusted net loss before taxes of $8.0 million for the same period of the previous year.

## UNAUDITED FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)

| | | Three Months Ended January 31, | | | Nine Months Ended January 31, | |
|---|---|---|---|---|---|---|
| | | **2022** | 2021 | | **2022** | 2021 |
| Sales | **$** | **10,208** | 11,625 | **$** | **27,749** | 30,152 |
| Net income (loss) | **$** | **4,838** | (1,038) | **$** | **(1,171)** | (1,390) |
| Basic and diluted earnings (loss) per share | **$** | **0.34** | (0.07) | **$** | **(0.08)** | (0.10) |
| Adjusted net loss before taxes | **$** | **(4,229)** | (2,191) | **$** | **(11,849)** | (8,047) |
| Adjusted EBITDA | **$** | **(2,930)** | (1,179) | **$** | **(8,379)** | (4,994) |

| | | **As at January 31, 2022** | | As at April 30, 2021 |
|---|---|---|---|---|
| Total assets | **$** | **54,467** | $ | 41,972 |
| Total liabilities | **$** | **41,730** | $ | 28,136 |
| Cash | **$** | **14,594** | $ | 3,736 |
| Restricted cash | **$** | **3,181** | $ | 2,764 |
| Weighted average number of shares for basic EPS | | **14,380,701** | | 14,380,701 |
| Weighted average number of shares for diluted EPS | | **14,414,684** | | 14,380,701 |

## RESULTS OF OPERATIONS

**Sales**
(in thousands, except where indicated)

| | | 2022 | | 2021 | Change |
|---|---|---|---|---|---|
| Three Months Ended January 31 | **$** | **10,208** | $ | 11,625 | (12.2%) |
| Nine Months Ended January 31 | **$** | **27,749** | $ | 30,152 | (8.0%) |

Sales for the three months ended January 31, 2022, were 12.2% lower than the same quarter of the previous year due to the impact of supply chain disruptions, which impacted the availability of height adjustable bases and medium density fibre board, delaying the Company's ability to fulfill orders in hand. During the quarter Walls sales were relatively flat, while Furniture sales declined by 15.3% over the same quarter of prior year.

Sales volumes for the nine months ended January 31, 2022, were relatively flat compared to the same period of the prior year, due to a slower-than-expected North American economic recovery, and the supply chain disruptions which were more pronounced in this fiscal year. Additionally, a 5.6% unfavourable average exchange rate during the period resulted in a lower sales value, with Furniture recording a 11.8% decline, partially offset by a 1.9% increase at Walls.

**Gross Profit**
(in thousands, except where indicated)

| | | 2022 | % of sales | | 2021 | % of sales |
|---|---|---|---|---|---|---|
| Three Months Ended January 31 | **$** | **1,470** | **14.4%** | $ | 2,658 | 22.9% |
| Nine Months Ended January 31 | **$** | **4,284** | **15.4%** | $ | 6,320 | 21.0% |

Gross profit margin as a percentage of sales was 14.4% for the third quarter of fiscal year 2022, a significant decrease of 850 basis points over the 22.9% for the same period last year. This declined margin was a result of lower sales volume as noted previously above and inventory write-downs during the period. The Company continues to identify initiatives to achieve cost efficiencies and improve margins as sales levels improve.

For the nine months ended January 31, 2022, gross profit margin, as a percentage of sales was 15.4%, a decline of 560 basis points from the 21.0% for the same period last year, primarily attributed to the impact of unfavourable exchange rates on the Company's US denominated sales and lower sales generally, for the reasons previously noted above.

**Selling, General & Administrative Expenses (SG&A)**
(in thousands, except where indicated)

| | | 2022 | % of sales | | 2021 | % of sales |
|---|---|---|---|---|---|---|
| Three Months Ended January 31 | **$** | **5,156** | **50.5%** | $ | 4,859 | 41.8% |
| Nine Months Ended January 31 | **$** | **14,927** | **53.8%** | $ | 14,611 | 48.5% |

SG&A for the three and nine months ended January 31, 2022, were 50.5% and 53.8% of sales, compared to 41.8% and 48.5% for the same periods of last year. The total SG&A expenses for the three and nine months ended January 31, 2022, were relatively flat with the comparative period, due to high fixed cost component of the SG&A expenses. However, lower sales values in the current fiscal period accounted for the deteriorated percentages shown above.

**Non-Operating Income**
(in thousands, except where indicated)

| | | 2022 | | 2021 | Change |
|---|---|---|---|---|---|
| Three Months Ended January 31 | **$** | **11,991** | $ | 1,185 | 911.9% |
| Nine Months Ended January 31 | **$** | **12,942** | $ | 6,930 | 86.8% |

Net non-operating income for the three-month period was nearly ten times higher and for the nine-month period 86.8% higher than the comparative periods in prior year. This is primarily attributed to the gain realized from sale of the Holland Landing property in the current quarter.

**Net Income (Loss) Before Tax**
(in thousands, except where indicated)

| | | 2022 | % of sales | | 2021 | % of sales |
|---|---|---|---|---|---|---|
| Three Months Ended January 31 | **$** | **8,305** | **81.4%** | $ | (1,016) | (8.7%) |
| Nine Months Ended January 31 | **$** | **2,299** | **8.3%** | $ | (1,361) | (4.5%) |

Net income before taxes for the three and nine-month periods for the current fiscal year improved significantly due to the extraordinary gains from the disposal of the Holland Landing property, previously noted, which was partially offset by lower sales. (refer to Holland Landing Sale and Leaseback Transaction below).

**Non-GAAP Measures**

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

| (in thousands, except where indicated) | **Three Months Ended January 31, 2022** | Three Months Ended January 31, 2021 | **Nine Months Ended January 31, 2022** | Nine Months Ended January 31, 2021 |
|---|---|---|---|---|
| Net income (loss) before taxes | **$ 8,305** | $ (1,016) | **$ 2,299** | $ (1,361) |
| Adjust non-operating or unusual items: | | | | |
| Unrealized loss (gain) on derivatives | **265** | (159) | **661** | (3,416) |
| Unrealized loss (gain) on foreign exchange | **143** | (184) | **(35)** | 111 |
| Gain on disposal of PP&E and intangibles | **(12,985)** | (232) | **(12,985)** | (232) |
| Other income – government grant | **1** | (610) | **(1,977)** | (3,392) |
| Stock-based compensation | **42** | (3) | **164** | 199 |
| Severance obligation | **-** | 13 | **24** | 44 |
| Adjusted net loss before taxes | **$ (4,229)** | $ (2,191) | **$ (11,849)** | $ (8,047) |

The third quarter of the current fiscal year ended with a net income before taxes of $8.3 million, compared to a net loss before taxes of $1.0 million for the same quarter of the previous fiscal year. The improved performance is primarily attributed to extraordinary non-operating gains from the disposal of the Holland Landing property and other non-operating transactions.

With the exclusion of these items, the third quarter of fiscal year 2022 had an adjusted net loss before taxes of $4.2 million, compared with an adjusted net loss before taxes of $2.2 million for the third quarter of fiscal year 2021.

The nine months ended January 31, 2022, ended with a net income before taxes of $2.3 million, compared to a net loss before taxes of $1.4 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 nine months ended January 31, 2022, had an adjusted net loss before taxes of $11.8 million, compared with an adjusted net loss before taxes of $8.0 million for the same period of prior year.

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

| (in thousands) | Three Months Ended January 31, 2022 | Three Months Ended January 31, 2021 | Nine Months Ended January 31, 2022 | Nine Months Ended January 31, 2021 |
|---|---|---|---|---|
| Net income (loss) before taxes | **$ 8,305** | $ (1,016) | **$ 2,299** | $ (1,361) |
| Interest | **585** | - | **1,394** | (1) |
| Depreciation | **371** | 492 | **1,143** | 1,476 |
| Amortization | **343** | 520 | **933** | 1,578 |
| EBITDA | **$ 9,604** | $ (4) | **$ 5,769** | $ 1,692 |
| Adjust non-operating or unusual items: | | | | |
| Unrealized loss (gain) on derivatives | **$ 265** | $ (159) | **$ 661** | $ (3,416) |
| Unrealized loss (gain) on foreign exchange | **143** | (184) | **(35)** | 111 |
| Gain on disposal of PP&E and intangibles | **(12,985)** | (232) | **(12,985)** | (232) |
| Other income – government grant | **1** | (610) | **(1,977)** | (3,392) |
| Stock-based compensation | **42** | (3) | **164** | 199 |
| Severance obligation | **-** | 13 | **24** | 44 |
| Adjusted EBITDA | **$ (2,930)** | $ (1,179) | **$ (8,379)** | $ (4,994) |

**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 third quarter of fiscal 2022. With the exception of the tax implications mentioned above.

## Summary of Quarterly Results

Select unaudited quarterly financial information for the previous eight quarters from January 31, 2020 through to January 31, 2022 is provided below:

**Unaudited Quarterly information[1]**
(in thousands, except per share amounts**)**

| | Quarters Ended | | | |
|---|---|---|---|---|
| | **January 31, 2022** | October 31, 2021 | July 31, 2021 | April 30, 2021 |
| **Sales** | **$ 10,208** | $ 9,683 | $ 7,858 | $ 8,051 |
| **Gross profit** | **$ 1,470** | $ 2,207 | $ 607 | $ 614 |
| **Gross profit %** | **14.4%** | 22.8% | 7.7% | 7.6% |
| **Net income (loss)** | **$ 4,838** | $ (2,623) | $ (3,386) | $ 499 |
| **Basic and diluted income (loss) per share** | **$ 0.34** | $ (0.18) | $ (0.24) | $ 0.03 |
| **Adjusted net loss before taxes** | **$ (4,229)** | $ (3,299) | $ (4,321) | $ (4,906) |
| **EBITDA** | **$ 9,604** | $ (1,501) | $ (2,334) | $ (1,326) |
| **Adjusted EBITDA** | **$ (2,930)** | $ (2,179) | $ (3,270) | $ (3,876) |

| | 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% | 3.3% | 30.2% | 26.9% |
| 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) income before taxes | $ (2,191) | $ (4,659) | $ (1,197) | $ (2,288) |
| EBITDA | $ (4) | $ (2,698) | $ 4,394 | $ (3,987) |
| Adjusted EBITDA | $ (1,179) | $ (3,630) | $ (185) | $ (1,038) |

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

## HOLLAND LANDING SALE AND LEASEBACK TRANSACTION

### Sale and Leaseback

On January 25, 2022, the Company completed a sale and leaseback of the land and buildings ("the property") at 67 Toll Road in Holland Landing, Ontario to a third party. The property, which was included as assets held for sale immediately prior to sale, had a carrying value of $5.2 million. The leaseback resulted in the recognition of right-of-use assets of $2.7 million and lease liabilities of $16.7 million. The right-of-use assets value reflects the proportion of the property, plant and equipment retained for a period of ten years, with two five-year extension periods. The lease liability reflects the net present value of future lease payments.The sale generated cash proceeds of $32.8 million and resulted in a net gain of $13.0 million.

#### Assets Held For Sale

Following the sale and leaseback of the property at 67 Toll Road, assets held for sale of $12 thousand remained as at January 31, 2022 representing the parcel of land at 70 Toll Road.

#### Tax Implications

For the three and nine months ended January 31, 2022, the Company's effective income tax rate decreased from the customary tax rate primarily due to a reduction in deferred tax assets associated with Canadian non-capital losses that were fully utilized as a result of this transaction.

The full tax impact of this transaction will be reflected in the year end financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

**Cash Flow Summary**
(in thousands)

| | | Three Months Ended January 31, | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| Net cash flow generated from (used in): | | | | |
| Operating activities before changes in working capital | **$** | **(2,736)** | $ | (503) |
| Net change in working capital | | **(4,252)** | | (515) |
| Investing activities | | **32,065** | | 123 |
| Financing activities | | **(11,355)** | | (413) |
| Foreign exchange (loss) gain on cash | | **(76)** | | 76 |
| Net increase (decrease) in cash | | **13,646** | | (1,232) |
| Cash, beginning of period | | **948** | | 2,459 |
| Cash, end of period | **$** | **14,594** | $ | 1,227 |

The three months ended January 31, 2022, had a cash outflow from operations (before changes in working capital) of $2.7 million, compared to an outflow of $0.5 million for the same period of the previous fiscal year. The increase in cash outflow is largely attributable to $1.4 million of lower sales and $0.5 million of interest expense, in addition to $0.6 million of Canadian Emergency Wage Subsidy received in the prior year.

The three months ended January 31, 2022, had a $4.3 million cash outflow from net change in working capital due largely to deposits paid in respect of the leaseback of the Holland Landing property of $2.5 million and the lease of the new Chicago showroom of US$0.3 million and interest payments.

For the three months ended January 31, 2022, cash inflow from investing activities for the third quarter comprised of the cash proceeds of $32.8 million from the sale of the Holland Landing property.

Net cash outflow from financing activities of $11.4 million was largely attributed to payment of the outstanding balance under the revolving credit facility, which is now settled and terminated.

**Cash Flow Summary**
(in thousands)

| | | Nine Months Ended January 31, | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| Net cash flow generated from (used in): | | | | |
| Operating activities before changes in working capital | **$** | **(6,112)** | $ | (2,565) |
| Net change in working capital | | **(5,627)** | | 87 |
| Investing activities | | **31,174** | | (545) |
| Financing activities | | **(8,743)** | | (1,385) |
| Foreign exchange gain (loss) on cash | | **166** | | (250) |
| Net increase (decrease) in cash | | **10,858** | | (4,658) |
| Cash, beginning of period | | **3,736** | | 5,885 |
| Cash, end of period | **$** | **14,594** | $ | 1,227 |

The nine months ended January 31, 2022, had a cash outflow from operations (before changes in working capital) of $6.1 million, compared to an outflow of $2.6 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, in addition to slightly higher selling, general and administration expenses and the cessation of government wage grant and subsidy programs.

Net decrease in working capital was $5.6 million compared to a net increase of $0.1 million in the same period of last year. The net decrease resulted primarily from increased inventory, payment of deposits on new leases (Holland Landing property and Chicago showroom) and payment of interest on the revolving credit facility.

Net cash inflow from investing activities for the nine months ended January 31, 2022, comprised of $32.8 million (2021 - $0.3 million) for proceed of disposition of the Holland Landing property, partially offset by $1.1 million (2021 - $0.8 million) investment in plant and equipment

Net cash outflow from financing activities of $8.7 million compared to a cash outflow of $1.4 million in the previous fiscal period, was a largely due to settlement of the revolving credit facility in the current fiscal.

**Credit Facility**
On April 29, 2021 the Company closed its revolving committed credit facility with FrontWell Capital Partners Inc.. The facility provided credit availability of the lesser of $16.0 million and availability pursuant to the Borrowing Base calculation representing accounts receivable, inventories, land and building, with a maturity date which was the earlier of (i) April 29, 2022, and (ii) the completion of the sale of the property classified as assets held for sale. The interest rate on the demand operating credit facility was Prime Rate plus 8.75% for Canadian dollar loans, US Base Rate plus 8.75% for US dollar loans. The agreement was secured by the Company's accounts receivable, inventories, land and building (borrowing base).

As at January 25, 2022, the Company has repaid all amounts owing under the credit facility and the facility was closed. As at January 31, 2022 the Company had no credit agreement in place.

**Contractual Obligations**
The following is a summary of the Company's contractual obligations as at January 31, 2022:

| | Payments due by period | | | |
|---|---|---|---|---|
| (in millions) | **Total** | **1 year or less** | **1-5 years** | **After 5 years** |
| Lease liabilities | $ 38.8 | $ 3.2 | $ 15.4 | $ 20.2 |
| Foreign exchange contracts | 0.1 | 0.1 | - | - |
| | **$ 38.9** | **$ 3.3** | **$ 15.4** | **$ 20.2** |

Lease contracts are primarily in respect of the Company's four showrooms and US manufacturing facilities. 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 January 31, 2022. The Class B subordinated voting shares, which are listed on the Toronto Stock Exchange, 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 January 31, | | Nine Months Ended January 31, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Salaries and short-term benefits | $ **417** | 607 | $ **1,460** | 1,403 |
| Post-employment benefits | **-** | 5 | **4** | 16 |
| Share-based compensation | **42** | (3) | **164** | 199 |
| | $ **459** | 609 | $ **1,628** | 1,618 |

## 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.

While there is still uncertainty regarding the full impact of COVID-19, federal and municipal governments, with advice from various health experts, are choosing to move into the "endemic phase" of living with COVID-19. As customers move to a new normal, we continue to experience the impact of the disruption in demand for our products. There is significant uncertainty regarding the timing of our return to pre-COVID-19 sales levels.

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.

**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.

These assistance programs from the Canadian government ended on October 23, 2021.

***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 January 31, 2022, the Company had outstanding US dollar hedge contracts with settlement dates from February 2022 to June 2022. The total notional amounts under the contracts are US$5.25 to $8.4 million (2021 - $13.0 to $20.8 million). Dependent on the spot CAD/US rate on each settlement date, the Company can sell US dollars at rates ranging from $1.220 CAD/US to $1.325 CAD/US (2021 - $1.270 CAD/US to $1.400 CAD/US). These contracts had a mark-to-market unrealized loss of $55 thousand (US$43 thousand) as at January 31, 2022 (2021– unrealized gain of $25 thousand (US$19 thousand), which was recognized on the interim consolidated statement of financial position as derivative asset and liability. 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 $24 thousand on the settlement of contracts during the three months ended January 31, 2022 (2021 – gains $95 thousand) and realized gain of $248 thousand for the nine months ended January 31, 2022 (2021 - $157 thousand).

## 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.

**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.

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 January 31, 2022, 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.