Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

(Unaudited)

October 31, 2022 and 2021

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended October 31, 2022 and 2021

Unaudited

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

	Note	Three Months Ended October 31, 2022	Three Months Ended October 31, 2021	Six Months Ended October 31, 2022	Six Months Ended October 31, 2021
SALES	9	$ **8,302**	9,683	$ **17,160**	17,541
COST OF GOODS SOLD	10	**8,363**	7,476	**16,869**	14,727
GROSS (LOSS) PROFIT		**(61)**	2,207	**291**	2,814
EXPENSES					
Selling, general and administrative	10	**6,166**	5,086	**12,510**	9,771
Unrealized loss (gain) on foreign exchange		**552**	(79)	**545**	(178)
Other income	12	**-**	(598)	**(93)**	(1,978)
Unrealized loss (gain) on derivatives	6.2	**594**	(24)	**487**	396
Interest expense		**416**	443	**818**	809
		7,728	4,828	**14,267**	8,820
Loss before taxes		**(7,789)**	(2,621)	**(13,976)**	(6,006)
Income tax expense		**87**	2	**87**	3
NET LOSS		$ **(7,876)**	(2,623)	$ **(14,063)**	(6,009)
Net loss per share available to shareholders	8				
Basic		$ **(0.55)**	(0.18)	$ **(0.98)**	(0.42)
Diluted		$ **(0.55)**	(0.18)	$ **(0.98)**	(0.42)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the three and six months ended October 31, 2022 and 2021

Unaudited

(in thousands of Canadian dollars)

	Three Months Ended October 31,			Six Months Ended October 31,		
		2022	2021		**2022**	2021
NET LOSS	**$**	**(7,876)**	(2,623)	**$**	**(14,063)**	(6,009)
OTHER COMPREHENSIVE LOSS						
Items that may be reclassified to earnings						
Exchange gain (loss) on translation of foreign operations		**180**	(28)		**177**	(7)
Other comprehensive income (loss)		**180**	(28)		**177**	(7)
TOTAL COMPREHENSIVE LOSS	**$**	**(7,696)**	(2,651)	**$**	**(13,886)**	(6,016)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited
(in thousands of Canadian dollars)

	Note	As at October 31, 2022	As at April 30, 2022
ASSETS			
Current assets			
Cash & cash equivalents		**$ 2,028**	$ 8,284
Restricted cash		**615**	3,200
Trade and other receivables	4	**9,251**	11,778
Inventories	5	**5,678**	4,926
Note receivable		**44**	40
Prepaid expenses and other assets		**308**	469
		17,924	28,697
Non-current assets			
Property, plant and equipment		**4,810**	5,660
Intangible assets		**689**	826
Right-of-use assets		**12,083**	13,579
Other assets		**2,711**	2,700
Note receivable		**230**	237
Retirement benefit assets		**1,257**	1,350
Deferred income tax assets		**2,581**	2,581
		24,361	26,933
TOTAL ASSETS		**$ 42,285**	$ 55,630
LIABILITIES			
Current liabilities			
Trade and other payables		**11,973**	10,794
Lease liabilities		**2,281**	2,158
Derivative financial liabilities	6.2	**594**	107
Income tax payable		**585**	521
Provisions		**103**	80
		15,536	13,660
Non-current liabilities			
Retirement benefit obligation		**719**	654
Lease liabilities		**25,465**	26,653
Provisions		**275**	322
Other long-term obligations		**-**	165
		26,459	27,794
TOTAL LIABILITIES		**41,995**	41,454
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive income		**3,819**	3,641
Deficit		**(59,071)**	(45,008)
TOTAL SHAREHOLDERS' EQUITY		**290**	14,176
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 42,285**	$ 55,630

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

Approved by the Board of Directors,

(signed)
Neil McDonnell
Chair

(signed)
Eric Ehgoetz
Director & Chief Executive Officer

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Cumulative Remeasurement of Retirement Benefit Obligation	Cumulative Translation Gain (Loss)	Deficit	Total Shareholders' Equity
Balance, April 30, 2022	$ 52,868	$ 2,675	$ 2,300	$ 1,341	$ (45,008)	$ 14,176
Net loss	-	-	-	-	(14,063)	(14,063)
Other comprehensive income	-	-	-	177	-	177
Balance, October 31, 2022	**$ 52,868**	**$ 2,675**	**$ 2,300**	**$ 1,519**	**$ (59,071)**	**$ 290**
Balance, April 30, 2021	$ 52,868	$ 2,675	$ 1,207	$ 1,255	$ (44,169)	$ 13,836
Net loss	-	-	-	-	(6,009)	(6,009)
Other comprehensive loss	-	-	-	(7)	-	(7)
Balance, October 31, 2021	$ 52,868	$ 2,675	$ 1,207	$ 1,248	$ (50,178)	$ 7,820

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended October 31, 2022 and 2022

Unaudited

(in thousands of Canadian dollars)

	Note	Three Months Ended October 31,		Six Months Ended October 31,	
		2022	2021	**2022**	2021
Net outflow of cash related to the following activities:					
OPERATING					
Net loss		$ **(7,876)**	(2,623)	$ **(14,063)**	(6,009)
Items not affecting cash					
Amortization and depreciation		**919**	677	**2,053**	1,362
Interest expense and other fees		**393**	451	**818**	797
Amortization of deferred financing fees		**-**	83	**-**	137
Unrealized loss (gain) on derivatives	6.2	**594**	(24)	**487**	396
Share-based compensation		**(28)**	15	**(145)**	122
Unrealized loss (gain) on foreign exchange		**604**	(79)	**545**	(178)
Non-cash portion of other income		**-**	(5)	**-**	(230)
Gain on lease modification		**-**	-	**(93)**	-
Retirement benefit obligation expense net of employer contributions		**110**	145	**159**	279
Cash used in operating activities before non-cash working capital		**(5,284)**	(1,360)	**(10,239)**	(3,324)
Movements in non-cash working capital					
Trade and other receivables		**899**	(409)	**1,223**	(263)
Inventories		**(333)**	(635)	**(694)**	(1,454)
Assets held for sale		**-**	(10)	**-**	(10)
Prepaid expenses and other assets		**271**	227	**167**	(29)
Trade and other payables		**2,021**	1,147	**1,080**	944
Provisions		**(69)**	(102)	**(35)**	(109)
Changes in non-cash operating items		**2,789**	218	**1,741**	(921)
Interest payments		**(380)**	(310)	**(769)**	(432)
Restricted shares settled		**(20)**	-	**(20)**	(23)
Cash used in operating activities		**(2,895)**	(1,452)	**(9,287)**	(4,700)
INVESTING					
Proceeds from note receivable		**21**	14	**30**	28
Proceeds from sale of property, plant and equipment		**-**	-	**1,624**	-
Additions to property, plant and equipment and intangible assets		**(92)**	(790)	**(242)**	(919)
Cash (used in) generated from investing activities		**(71)**	(776)	**1,412**	(891)
FINANCING					
Proceeds from revolving credit facility		**-**	6,844	**-**	8,094
Payment of revolving credit facility		**-**	(5,031)	**-**	(5,066)
Payment of financing fees		**-**	(142)	**-**	(142)
Principal portion of lease liabilities		**(492)**	(132)	**(1,015)**	(274)
Cash (used in) generated from financing activities		**(492)**	1,539	**(1,015)**	2,612
Unrealized foreign exchange (gain) loss on cash		**(23)**	40	**49**	191
Net cash outflow		**(3,481)**	(649)	**(8,841)**	(2,788)
Cash, cash equivalents and restricted cash, beginning of period		**6,124**	1,597	**11,484**	3,736
Cash, cash equivalents and restricted cash, end of period		$ **2,643**	948	$ **2,643**	948

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

1. GENERAL INFORMATION

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

The Company is an office furniture manufacturer with production at two facilities, an approximately 313,000 square feet plant in Holland Landing, and a 30,000 square feet plant in Jamestown, New York, USA. The Company serves its clients through a network of dealers and representatives supported by showrooms across North America.

The Company reports in two reportable operating segments - the Furniture segment which includes storage, benching, systems and seating products, and the Walls segment which includes architectural and movable walls.

1a. Hilco's Support Agreement and Loan Agreement

On October 28, 2022, Inscape entered into a support agreement (the "Support Agreement") with HUK 121 Limited (the "Offeror"), a wholly owned subsidiary of Hilco Capital Limited UK ("Hilco"), under which the Offeror has agreed to initiate a take-over bid to acquire all of Inscape's outstanding subordinated voting shares (the "Shares") for $0.007 in cash per Share (the "Offer Price") by way of a friendly take-over bid (the "Offer").

In connection with the Offer, certain shareholders of the Company (the "Locked-Up Shareholders") who collectively represent over 80% of the Shares, have entered into "hard" Lock-Up Agreements with the Offeror under which the Locked-Up Shareholders have agreed to support the Offer and to deposit their Shares under the Offer (the "Lock-Ups").

The Company also announced that it has entered into a loan agreement (the "Loan Agreement") with HUK 116 Limited, another subsidiary of Hilco, for the establishment of a new $5,000 demand secured credit facility. The new credit facility will be used by the Company to finance working capital and for other corporate purposes.

The Board of Directors of Inscape (the "Board"), after consultation with financial and legal advisors, unanimously approved entering into the Support Agreement and unanimously recommended the Company's shareholders (the "Shareholders") deposit their Shares under the Offer. The Board received a verbal opinion on October 28, 2022 from Evans & Evans, Inc. that the Offer Price was fair, from a financial point of view, to Shareholders. The opinion was based on and subject to the assumptions made, procedures followed, matters considered and limitations and qualifications on the review undertaken, which are more fully described in the written opinion provided by Evans & Evans, Inc. and included in the Inscape directors' circular filed on Nov 25, 2022.

In approving the Take-Over Bid, the Board, among other things, reviewed and considered:

- The Company's financial position and business prospects and that the Company had and continues to face difficulties arising from the business slowdown caused by COVID-19.
- The Company's exploration of other strategic alternatives, and that the Offer is the only alternative available to provide liquidity and consideration to the Shareholders.
- The Loan Agreement to be entered into concurrently with the Support Agreement will provide much needed financing to fund the Company's short-term working capital requirements, and will allow Inscape to continue to execute on its business plan while also meeting its financial obligations until the transactions contemplated by the Offer have been completed.
- The Offer Price was determined to be fair from a financial point of view to the Shareholders, by the financial advisor, Evans & Evans Inc., in the Fairness Opinion.
- The Shareholders representing approximately 80% of the issued and outstanding Shares have independently agreed to enter into "hard" Lock-Up Agreements to tender their Shares into the Offer, regardless of whether or not the Company terminates the Support Agreement in the future.

In order for Shareholders to be able to receive the Offer Price for their Shares, more than 66⅔% of the outstanding Shares (on a fully diluted basis) must be deposited under the Offer prior to the expiry of the initial deposit period and the Locked-Up Shareholders already represent sufficient Shares to exceed the minimum tender condition. Due to this overwhelming support, the purchase of all of the Shares is expected to be completed shortly after the expiry of the initial deposit period, failing which a subsequent acquisition transaction will be completed by the Offeror in order to acquire the remainder of the Shares.

The Offer is not subject to a financing condition.

The trading volume of Inscape's Shares is very low and there is no efficient, liquid market for the Company's Shares that would allow Shareholders to realize the value of their Shares.

The terms and conditions of the Offer and the Support Agreement, are, in the judgment of the Company and its advisors, reasonable and were the product of extensive negotiations between the Company and its advisors and the Offeror and Hilco and their advisors.

Under the terms of the Support Agreement, the Offeror had agreed to mail the Offer and the accompanying take-over bid circular to all registered holders of Shares as soon as reasonably practicable, and in any event not later than November 18, 2022. The Company and the Offeror have agreed to take the necessary steps under National Instrument 62-104 to reduce the initial deposit period for the Offer to 35 days from the commencement of the Offer (subject only to such extensions to the initial deposit period that are necessary for compliance with National Instrument 62-104), and will be conditional upon, among other things, there being validly deposited or tendered and not withdrawn, a number of Shares that represents at least 66⅔% of the outstanding Shares (on a fully diluted basis). The Support Agreement contains customary deal protections in favour of the Offeror for a transaction of this kind, including a non solicitation covenant in respect of competing offers from third parties, a termination fee and a right for the Offeror to match any Superior Proposal made by a third party.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS including comparatives

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, interim financial reporting as issued by the International Accounting Standards Board ("IASB") using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements.

These interim condensed consolidated financial statements were prepared on a going concern assumption using the historical cost basis except for financial instruments. These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on December 8, 2022.

The interim consolidated financial statements are presented in Canadian dollars, the functional currency of Inscape, and all values are rounded to the nearest thousands, except where indicated. Certain comparative amounts have been restated to conform to the presentation adopted in the current period.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its two wholly owned US subsidiaries, Inscape Inc. and Inscape (New York) Inc. Subsidiaries are consolidated from the date of acquisition and control and continue to be consolidated until the date that such control ceases. The Company controls an entity when the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through the Company's power over the investee. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis, except for the following significant items:
- derivative instruments are measured at fair value;
- defined benefit plan assets and liabilities are recognized at the present value of the defined benefit obligation, less
the fair value of plan assets.

Revenue recognition

Sale of manufactured goods

The Company's revenue is generated from sales and installation of manufactured goods to customers through a dealer network. For manufactured goods, revenue is recognized at a point in time when the goods are shipped. Revenue is recognized at a point in time when control of the assets passes to the customer; the Company's terms and condition state that control of the assets transfers at shipping point. This is where the customer gains control of the asset.

Installation revenue is recognized over time on a percentage of completion based on physical stage of completion of the contract. This output method is the best measure of progress as the nature of the products installed enable measurement to be reliably observed.

The Company invoices the customer as the installation occurs. The payments are received as per normal payment terms established with the customer.

Revenue from the sale of manufactured goods and installation is measured at fair value of the consideration received less applicable sales taxes, discounts, rebates and dealer incentives. Sales-related warranties associated with the sales and installation of manufactured goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. These assurance warranties are not distinct and does not represent a separate performance obligation for IFRS 15 purposes. Hence, the Company accounts for warranties in accordance with IAS 37.

Dealer incentives

The Company offers a variety of incentives to its dealer base to support sales initiatives. An obligation arises from the incentives when the Company sells manufactured goods and/or installations through the dealer network. The obligation is measured at fair value of the incentive earned. The dealer incentives are recorded as a reduction to revenue in the Consolidated Statement of Operations.

3. NEW ACCOUNTING STANDARDS ADOPTED

(a) New standards, interpretations and amendments adopted by the Company
There were no new standards, interpretations or amendments that had a material impact on the Company's consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(b) Standards issued but not yet effective
There are no new standards issued but not yet effective as at January 1, 2022 that are expected to have a material impact on the Company's consolidated financial statements.

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

4. TRADE AND OTHER RECEIVABLES

	As at October 31, 2022	As at April 30, 2022
Trade accounts receivable, gross	**$ 8,452**	$ 9,256
Allowance for expected credit losses	**(14)**	(9)
	8,438	9,247
Other receivables	**813**	2,531
	$ 9,251	$ 11,778

Included in other receivables at April 30, 2022 was $1,624 related to the sale of surplus land at 70 Toll Road, Holland Landing, Ontario, which was subsequently collected on May 2, 2022.

An aging analysis of trade accounts receivable:

	As at October 31, 2022	As at April 30, 2022
Current	**$ 3,428**	$ 3,611
1-30 days	**1,516**	2,645
31-60 days	**389**	624
61-90 days	**271**	595
> 90 days	**2,848**	1,781
	$ 8,452	$ 9,256

5. INVENTORIES

	As at October 31, 2022	As at April 30, 2022
Raw materials	**$ 4,565**	$ 3,946
Work-in-progress	**172**	288
Finished goods	**941**	692
	$ 5,678	$ 4,926

The cost of inventories recognized as cost of goods sold was $15,781 (2022 - $13,899). During the quarter, there were inventory write-downs to net realizable value of $232 (2022 - $87), and for the six-month period ended October 31, 2022, write-downs of $293 (2022 - $122).

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

6. FINANCIAL INSTRUMENTS

6.1 Capital risk management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders through growth in earnings.

Management defines capital as the Company's total capital, debt and reserves, excluding accumulated other comprehensive income as summarized in the following table:

	As at October 31, 2022	As at April 30, 2022
Issued capital	**$ 52,868**	$ 52,868
Contributed surplus	**2,675**	2,675
Deficit	**(59,071)**	(45,008)
Total	**$ (3,528)**	$ 10,535

The Company manages its capital structure and makes modifications in response to changes in economic conditions and the risks associated with the underlying strategic initiatives. To maintain or adjust the capital structure, the Company may return capital to shareholders.

6.2 Foreign currency risk management

The Company's activities expose it primarily to the financial risks of changes in the US dollar exchange rates. The Company enters into a variety of derivative financial instruments to hedge the exchange rate risk arising on the anticipated sales to the US. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by the Board on a regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

As at October 31, 2022, the Company had outstanding US dollar hedge contracts with settlement dates from November 2021 to April 2023. The total notional amounts under the contracts are US$5,200 to $10,400 (2021 - $8,500 to $13,600). Dependent on the spot CAD/US rate on each settlement date, the Company can sell US dollars at rates ranging from $1.30 CAD/US to $1.325 CAD/US (2021 - $1.22 CAD/US to $1.33 CAD/US). These contracts had a mark-to-market unrealized loss of $594 (US$435) as at October 31, 2022 (2021– unrealized gain of $210 (US$170)), which was recognized on the interim condensed consolidated statements of financial position as derivative financial liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the US currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the interim condensed consolidated statements of operations as unrealized gain or loss on derivatives of the period. There were net realized losses of $141 on the settlement of contracts during the three and six months period ended October 31, 2022 (2021 – realized gains of $41 and 224, respectively).

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

The following reconciles the changes in the fair value of the derivatives at the beginning and the end of the period:

	As at October 31, 2022	As at April 30, 2022
Fair value of derivative liabilities, beginning of period	**$ -**	$ (606)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	**(594)**	(107)
Reversal of derivative assets of contracts settled	**-**	(74)
Decrease) in fair values of outstanding contracts	**-**	(532)
Net (decrease) increase in fair value of derivative assets recognized during the period	**(594)**	(713)
Fair value of derivative liabilities, end of period	**$ (594)**	$ (107)
Liabilities		
Current	**$ (594)**	**$ (107)**

6.3 Foreign currency sensitivity analysis

Based on the existing average US currency hedge contract rates and the mix of US dollar denominated sales and expenses for the second quarter ended October 31, 2022, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately $18 on the Company's pre-tax earnings (2021 – $22).

Based on the US dollar denominated assets and liabilities as at October 31, 2022, a 1% change in the Canadian dollar against the US dollar would have an impact of $143 on the unrealized exchange gain or loss reported in the interim consolidated statements of operations (2021 - $316) and an impact of $228 on the interim consolidated statements of comprehensive loss (2021 - $166).

6.4 Credit risk management

Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss to the Company. The credit risk of counterparty non-performance continues to be relatively low, notwithstanding the impact of COVID-19. The Company's cash, restricted cash, trade accounts receivable and note receivable are subject to the risk that the counterparties may fail to discharge their obligation to pay the Company. As at October 31, 2022, the Company's maximum direct exposure to credit risk is $14,879 (October 31, 2021 – $10,437).

The Company is in regular contact with its customers, suppliers and logistics providers, and to date has not experienced significant counterparty non-performance. However, if a key supplier (or any company within such supplier's logistic chain) or a key customer experiences financial difficulties or fails to comply with their contractual obligations, this could result in a significant financial loss. The Company would also suffer a significant financial loss if an institution from which the Company purchased foreign exchange contracts and/or annuities for its pension plans defaults on their contractual obligations. With respect to its financial market activities, the Company has adopted a policy of dealing only with credit-worthy counterparties. In light of COVID-19, the Company assessed the financial stability and liquidity of its customers at the reporting date. No significant adjustments were made to the allowance for expected credit loss ("ECL") in connection with this assessment.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated by assessing new customers' credit history, reviewing credit limits, monitoring the aging of accounts receivable, assessing specific customer information and reviewing general historical trends. Trade receivables consist of many customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at October 31, 2022, the allowance for ECL was $14 (April 30, 2022 - $9).

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

The Company's allowance for ECL consists of sales allowances released during the period of $4 (April 30, 2022 – $26) mainly from adjustments to expected lifetime credit losses. There were no amounts written off (April 30, 2022 - $11). Below is a breakdown of the Company's ECL:

Movement in the allowance for ECL	As at October 31, 2022	As at April 30, 2022
Balance, beginning of period	**$ 9**	$ 45
Sales allowance adjustments	**4**	(26)
Amount written-off	**-**	(11)
Foreign currency differences	**1**	1
Balance, end of period	**$ 14**	$ 9

6.5 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. The Company is exposed to liquidity risk primarily because of its lease liabilities and trade and other payables. The Company continuously reviews actual and forecasted cash flows to ensure there is appropriate capital capacity.

The primary source of liquidity is funds generated by operating activities and financial assets.

The following table summarizes contractual undiscounted future cash flow requirements as at October 31, 2022:

	2023	2024	2025	2026	2027	Thereafter	Total
Trade and other payables	$ 11,982	$ -	$ -	$ -	$ -	$ -	$ 11,982
Income taxes payable	585	-	-	-	-	-	585
Lease liabilities	4,361	3,831	3,692	3,757	3,877	17,664	37,182
Total contractual obligations	**$ 16,928**	**$ 3,831**	**$ 3,692**	**$ 3,757**	**$ 3,877**	**$ 17,664**	**$ 49,749**

6.6 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at October 31, 2022:

	Level 1	Level 2	Level 3
Financial assets			
Cash equivalents	$ -	$ 1,006	$ -
Financial liabilities			
Derivative financial liabilities	$ -	$ (594)	$ -
Total net financial assets	**$ -**	**$ 412**	**$ -**

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at April 30, 2022:

	Level 1	Level 2	Level 3
Financial assets			
Cash equivalents	$ -	$ 5,011	$ -
Financial liabilities			
Derivative financial liabilities	$ -	$ (107)	$ -
Total net financial assets	$ -	$ 4,904	$ -

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

7. ISSUED CAPITAL

Authorized
Unlimited Class B subordinated voting shares, 1 vote per share

	As at October 31, 2021	As at April 30, 2021
Issued and outstanding		
Class B subordinated voting	**14,380,701**	14,380,701
	14,380,701	14,380,701

8. LOSS PER SHARE

The net loss and weighted average number of shares used in the calculation of basic and diluted loss per share are as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2022	2021	**2022**	2021
Net loss	**$ (7,876)**	(2,623)	**$ (14,063)**	(6,009)
Weighted average number of shares outstanding basic	**14,380,701**	14,380,701	**14,380,701**	14,380,701
Dilution impact of stock options	**-**	-	**-**	-
Weighted average number of shares outstanding diluted	**14,380,701**	14,380,701	**14,380,701**	14,380,701
Basic and diluted loss per share	**(0.55)**	(0.18)	**(0.98)**	(0.42)

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

9. SEGMENTED REPORTING

The Company's reportable segments are Furniture and Walls. Aggregated in the Furniture segment are systems, benching, storage and seating. This aggregation is based on the similarity in those products' functionalities, production or procurement process and method of distribution. Walls is a separate segment on its own due to the different nature of movable walls compared to furniture, the production process and the installation services involved in the selling of movable walls.

The following is an analysis of the Company's revenue and results from continuing operations by reportable segments:

		Three Months Ended October 31,			Six Months Ended October 31,	
		2022	2021		**2022**	2021
Segmented sales						
Furniture	$	**6,306**	6,121	$	**12,477**	12,069
Walls		**1,996**	3,562		**4,683**	5,472
	$	**8,302**	9,683	$	**17,160**	17,541

		Three Months Ended October 31,			Six Months Ended October 31,	
		2022	2021		**2022**	2021
Segmented loss						
Furniture	$	**(4,678)**	(2,477)	$	**(9,540)**	(5,385)
Walls		**(1,549)**	(402)		**(2,679)**	(1,572)
	$	**(6,227)**	(2,879)	$	**(12,219)**	(6,957)
Unrealized (loss) gain on foreign exchange		**(552)**	79		**(545)**	178
Unrealized (loss) gain on derivatives		**(594)**	24		**(487)**	(396)
Other income		**-**	598		**93**	1,978
Net interest expense		**(416)**	(443)		**(818)**	(809)
Loss before taxes		**(7,789)**	(2,621)		**(13,976)**	(6,006)
Income tax expense		**(87)**	(2)		**(87)**	(3)
Net loss	$	**(7,876)**	(2,623)	$	**(14,063)**	(6,009)

10. SUPPLEMENTAL INFORMATION

10.1 Revenue by Nature

		Three Months Ended October 31,			Six Months Ended October 31,	
		2022	2021		**2022**	2021
Included in:						
Product sales	$	**7,937**	8,737	$	**16,110**	15,853
Installation sales		**365**	946		**1,050**	1,688
	$	**8,302**	9,683	$	**17,160**	17,541

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

10.2 Salaries, wages and benefits

	Three Months Ended October 31,			Six Months Ended October 31,		
		2022	2021		**2022**	2021
Included in:						
Cost of goods sold	$	**2,844**	2,464	$	**5,537**	4,891
Selling, general and administrative		**3,201**	2,791		**6,190**	5,371
	$	**6,045**	5,255	$	**11,727**	10,262

10.3 Amortization and depreciation

	Three Months Ended October 31,			Six Months Ended October 31,		
		2022	2021		**2022**	2021
Included in:						
Cost of goods sold	$	**376**	233	$	**606**	463
Selling, general and administrative		**992**	445		**1,447**	900
	$	**1,368**	678	$	**2,053**	1,363

11. CREDIT FACILITY

On October 28, 2022, the Company entered a new $5,000 demand secured credit facility with HUK 116 Limited, a wholly-owned subsidiary of Hilco Capital Limited. The new credit facility will be used to finance working capital and other corporate initiatives.

12. GOVERNMENT ASSISTANCE

In response to the COVID-19 pandemic, the Company received a United States government unsecured forgivable loan in two tranches, with a 1.00% per annum interest rate, repayable over 24 months. Tranche 1 was forgiven as of the end of fiscal 2021.

Tranche 2 for $1,800 (US $1,390) was received during the fourth quarter of fiscal 2021, and was forgiven subject to the terms of the Paycheck Protection Program. The confirmation that the Tranche II loan was forgiven was received on June 8, 2022.

In addition, the Company applied for and received grants from the Canadian government under the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) programs.

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

These programs ended during fiscal 2022.

	Three Months Ended October 31,			Six Months Ended October 31,		
		2022	2021		**2022**	2021
Other income during the period:						
Government assistance:						
SBA forgivable loan, utilized	$	**-**	-	$	**-**	(256)
CEWS subsidies recognized		**-**	(562)		**-**	(1,624)
CERS subsidies recognized		**-**	(36)		**-**	(98)
		-	(598)		**-**	(1,978)
	$	**-**	(598)	$	**-**	(1,978)

The CEWS & CERS programs ended on October 23, 2021.

The Company continues to monitor other government assistance programs in both Canada and the US, however, does not qualify for any existing programs at this time.

13. RELATED PARTY TRANSACTIONS

The following were 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 Manufacturing & Supply Chain.

	Three Months Ended October 31,			Six Months Ended October 31,		
		2022	2021		**2022**	2021
Salaries and short-term benefits	**$**	**526**	341	**$**	**921**	1,043
Post-employment benefits		**6**	-		**12**	4
Share-based compensation		**(145)**	15		**(145)**	122
	$	**387**	356	**$**	**788**	1,169

14. INCOME TAXES

On October 13, 2022, the Company filed a Notice of Objection in response to the Canada Revenue Agency's ("CRA") reassessment of the 2016 and 2017 taxation years. The CRA denied the deductibility of certain expenses resulting in additional taxes of approximately $2,240. The CRA has transferred $892 of HST refunds receivable from the CRA covering the period from June 2022 to October 2022 to the Company's corporate tax account for the 2016 and 2017 reassessed years. The Company remains confident that the tax filing position was appropriate and that the Company will receive these funds when it files its tax return in December 2022, covering the stub period related to the Hilco acquisition of control.

15. GOING CONCERN

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at October 31, 2022, the Company had not yet achieved profitable operations and had a net loss for the three and six-month period of $7,876 and $14,063, and negative cash flows from operations of $2,895 and $9,288, respectively for the second quarter of fiscal 2023. As at October 31, 2022, the Company had current assets less current liabilities of $2,389 and a shareholder's deficit of $59,071.

The impact of COVID-19 on the markets and industries to which the Company sells its products, has been significant and continues to evolve. To the extent that customer orders do not materialize as expected, revenues, cash flows and financial performance will be adversely impacted.

The Company has acted to mitigate going concern risks. See the details of the new Support Agreement and Loan Agreement in Note 1a. Hilco's Support Agreement and Loan Agreement under Note 1. GENERAL INFORMATION. Additional information relating to these, and related transactions is available on SEDAR at www.sedar.com or on the Company's website at www.myinscape.com.

To the extent that (a) the Company's cash needs exceed its cash and cash equivalents, (b) the Company is unable to further draw down on the revolving demand credit facility or Hilco demands repayment of any of such facility, or (c) the Hilco take-over bid does not proceed as planned, the Company will have difficulty in meeting its financial obligations. To date, the Company has not experienced an inability to fulfill customer orders or delays in deliveries to customers.

The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

16. SUBSEQUENT EVENTS

Take-Over Bid and Abridgment of Deposit Period

On November 17, 2022, the Company and HUK 121 Limited ("the Offeror"), a subsidiary of Hilco Capital Limited, jointly announced that, in accordance with the friendly take-over bid ("the Offer") announced previously on October 29, 2022, the Offeror intends to formally commence the Offer to acquire all of the Company's outstanding subordinated voting shares ("the Shares") for $0.007 in cash per Share.

The board of directors of the Company has approved the abridgment of the initial deposit period for the Offer from 105 days to 35 days. Accordingly, the Offer allows the Shares that are subject to the Offer to be deposited until 5:00 p.m. (Toronto time) on December 23, 2022.

Loans

As of December 8th, 2022, the Company had borrowings of $2,702 under the new secured credit facility with HUK 116 Limited.

17. COMPARATIVE FINANCIAL STATEMENTS

Certain figures in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's financial statements.