

Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

(Unaudited)

October 31, 2020 and 2019

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INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended October 31, 2020 and 2019

(unaudited)

(in thousands of Canadian dollars)

	Note	Three months ended October 31,		Six months ended October 31,	
		2020	2019	2020	2019
SALES	8	\$ 7,157	\$ 23,322	\$ 18,527	\$ 43,999
COST OF GOODS SOLD	9	6,925	16,557	14,865	31,456
GROSS PROFIT		232	6,765	3,662	12,543
EXPENSES					
Selling, general and administrative	9	5,107	6,507	9,752	13,770
Unrealized (gain) loss on foreign exchange		(39)	25	295	56
Other income	11	(589)	-	(2,782)	-
Unrealized gain on derivatives	5.2	(519)	(184)	(3,257)	(1,032)
Loss on disposal of property, plant and equipment & intangibles		-	24	-	52
Investment income		(1)	(2)	(1)	(7)
		3,959	6,370	4,007	12,839
(Loss) income before taxes		(3,727)	395	(345)	(296)
Income taxes					
Current	13	5	3	7	56
		5	3	7	56
NET (LOSS) INCOME		\$ (3,732)	\$ 392	\$ (352)	\$ (352)
Net (loss) earnings per share available to shareholders					
Basic	7	\$ (0.26)	\$ 0.03	\$ (0.02)	\$ (0.02)
Diluted		\$ (0.26)	\$ 0.03	\$ (0.02)	\$ (0.02)

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the three and six months ended October 31, 2020 and 2019

(unaudited)

(in thousands of Canadian dollars)

	Three months ended October 31,		Six months ended October 31,	
Note	2020	2019	2020	2019
NET (LOSS) INCOME	\$ (3,732)	\$ 392	\$ (352)	\$ (352)
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that may be reclassified to earnings				
Exchange (loss) gain on translating foreign operations	<u>(38)</u>	<u>20</u>	<u>(135)</u>	<u>(126)</u>
Other comprehensive (loss) income	<u>(38)</u>	<u>20</u>	<u>(135)</u>	<u>(126)</u>
TOTAL COMPREHENSIVE (LOSS) INCOME	\$ (3,770)	\$ 412	\$ (487)	\$ (478)

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, 2020	As at April 30, 2020
ASSETS			
Current assets			
Cash		\$ 2,459	\$ 5,885
Trade and other receivables	3	6,938	10,255
Inventories	4	4,647	5,785
Prepaid expenses		773	690
		<u>14,817</u>	<u>22,615</u>
Non-current assets			
Property, plant and equipment		9,716	9,915
Right-of-use assets		2,536	3,637
Intangible assets		1,501	1,637
		<u>13,753</u>	<u>15,189</u>
TOTAL ASSETS		\$ 28,570	\$ 37,804
LIABILITIES			
Current liabilities			
Trade and other payables		\$ 8,547	\$ 11,923
Lease liabilities		1,120	2,035
Derivative financial liabilities	5.2	134	2,122
Forgivable government loan		-	1,199
Provisions		276	203
		<u>10,077</u>	<u>17,482</u>
Non-current liabilities			
Retirement benefit obligation		7,455	7,340
Lease liabilities		1,677	1,856
Derivative financial liabilities	5.2	-	1,269
Provisions		865	1,057
Other long-term obligations		306	123
		<u>10,303</u>	<u>11,645</u>
TOTAL LIABILITIES		20,380	29,127
SHAREHOLDERS' EQUITY			
Shareholders' capital	6	52,868	52,868
Contributed surplus		2,675	2,675
Accumulated other comprehensive loss		(3,723)	(3,588)
Deficit		(43,630)	(43,278)
TOTAL SHAREHOLDERS' EQUITY		8,190	8,677
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 28,570	\$ 37,804

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

Approved by the Board of Directors,
(signed)

Bartley Bull
Chair

(signed)

Eric Ehgoetz
Director & Chief Executive Office

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, 2020	\$ 52,868	\$ 2,675	\$ (4,984)	\$ 1,396	\$ (43,278)	\$ 8,677
Net Loss	-	-	-	-	(352)	(352)
Conversion of 3,345,881 multiple voting shares to subordinate shares for disposal	(237)	-	-	-	-	(237)
Issue of additional 3,345,881 subordinate shares on conversion of multiple voting shares on a 1:1 basis	237	-	-	-	-	237
Other comprehensive loss	-	-	-	(135)	-	(135)
Balance, October 31, 2020	\$ 52,868	\$ 2,675	\$ (4,984)	\$ 1,261	\$ (43,630)	\$ 8,190
Balance, April 30, 2019	\$ 52,868	\$ 2,675	\$ (1,844)	\$ 1,266	\$ (37,872)	\$ 17,093
Net loss	-	-	-	-	(352)	(352)
Other comprehensive loss	-	-	-	(126)	-	(126)
Balance, October 31, 2019	\$ 52,868	\$ 2,675	\$ (1,844)	\$ 1,140	\$ (38,224)	\$ 16,615

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, 2020 and 2019

(unaudited, in thousands of Canadian dollars)

	Note	Three months ended October 31,		Six months ended October 31,	
		2020	2019	2020	2019
Net (outflow) inflow of cash related to the following activities:					
OPERATING					
Net (loss) income	Note	\$ (3,732)	\$ 392	\$ (352)	\$ (352)
Items not affecting cash					
Amortization and depreciation		1,030	847	2,042	1,687
Interest expense on lease liabilities		38	-	80	-
Unrealized gain on derivatives	5.2	(519)	(184)	(3,257)	(1,032)
Share-based compensation		212	(80)	202	(368)
Unrealized (gain) loss on foreign exchange		(39)	25	295	56
Non-cash portion of other income	11	-	-	(1,187)	-
Disposal of property plant and equipment, ROU Assets & intangibles		-	24	-	52
Retirement benefit obligation expense net of employer contributions		126	27	115	45
Cash (used in) generated from operating activities before non-cash working capital		(2,884)	1,051	(2,062)	88
Movements in non-cash working capital					
Trade and other receivables		(354)	(1,649)	3,188	(1,749)
Inventories		73	318	1,045	(374)
Prepaid expenses		(74)	(4)	(102)	(424)
Accounts payable and accrued liabilities		599	324	(3,234)	2,338
Lease liabilities		(17)	(312)	(118)	(321)
Provisions		15	52	(85)	265
Income tax receivable and payable		-	(1)	-	13
Changes in non-cash operating items		242	(1,272)	694	(252)
Interest payment on lease liabilities		(37)	-	(83)	-
Restricted shares settled		-	-	(9)	-
Cash used in operating activities		(2,679)	(221)	(1,460)	(164)
INVESTING					
Additions to property, plant and equipment		(535)	(26)	(668)	(329)
Additions to intangible assets		-	(21)	-	(41)
Cash used in investing activities		(535)	(47)	(668)	(370)
FINANCING					
Payment of principal portion of lease liabilities		(386)	-	(972)	-
Cash used in financing activities		(386)	-	(972)	-
Unrealized foreign exchange gain (loss) on cash		26	(46)	(326)	(68)
Net cash outflow		(3,574)	(314)	(3,426)	(602)
Cash, beginning of period		6,033	2,977	5,885	3,265
Cash, end of period		\$ 2,459	\$ 2,663	\$ 2,459	\$ 2,663
Cash consists of:					
Cash		\$ 2,459	\$ 2,663	\$ 2,459	\$ 2,663
		\$ 2,459	\$ 2,663	\$ 2,459	\$ 2,663

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

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 in Canada and the United States in approximately 401,000 square feet of space. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 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, except for the application of new and revised IFRSs described below under section 2.3. 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 10, 2020.

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.

2.2 Basis of preparation

The Interim Condensed Consolidated Financial Statements include the accounts of Inscape 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. Inscape controls an entity when Inscape is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in trade and other receivables on the Interim Condensed Consolidated Statements of Financial Position. The Company recognizes government grants in the Interim Condensed Consolidated Statement of Operations as other income, in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in income or loss as other income in the period in which it becomes receivable, as an account receivable in the Interim Condensed Consolidated Statements of Financial Position and as an adjustment to operating activities in the Interim Condensed Consolidated Statements of Cash Flows.

A portion of the Small Business Administration (“SBA”) loan received from the US government is forgivable subject to the terms of the Paycheck Protection Program (“PPP”) - all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities.

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For the three and six months ended October 31, 2020 and 2019

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When a government loan is issued to the Company at a below-market rate of interest, the loan is initially recorded at its net present value and accreted to its face value over the period of the loan. The benefit of the below-market rate of interest is accounted for as a government grant. It is measured as the difference between the initial carrying value of the loan and the cash proceeds received.

2.3 Application of new and revised IFRS

Amendment to IFRS 16

On May 28, 2020, the IASB issued *Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases* ("the amendment"). The IASB amended the standard to provide optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic. As a practical expedient, a lessee may elect not to assess whether a coronavirus- pandemic related lease concession from a lessor is a lease modification.

The Company has elected to apply the practical expedient and not to assess whether lease payment extensions received from lessors were in fact lease modifications. The Company benefited from three lease payment deferrals that are being repaid over six months. The impact was not material.

3. TRADE AND OTHER RECEIVABLES

	As at October 31, 2020	As at April 30, 2020
Trade accounts receivable, gross	\$ 6,845	\$ 9,754
Loss allowance for expected credit losses	(182)	(216)
	<u>6,663</u>	<u>9,538</u>
Other receivables	275	717
	<u>\$ 6,938</u>	<u>\$ 10,255</u>

An aging analysis of trade receivables:

	As at October 31, 2020	As at April 30, 2020
Current	\$ 2,508	\$ 3,892
1-30 days	1,411	1,987
31-60 days	672	1,438
61-90 days	208	472
> 90 days	2,046	1,965
	<u>\$ 6,845</u>	<u>\$ 9,754</u>

4. INVENTORIES

	As at October 31, 2020	As at April 30, 2020
Raw materials	\$ 3,722	\$ 5,004
Work-in-progress	229	219
Finished goods	696	562
	<u>\$ 4,647</u>	<u>\$ 5,785</u>

During the quarter, there was an inventory write-down of \$602 (2019 - \$10) and \$689 for the six month period ended October 31, 2020 (2019 - \$12).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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5. FINANCIAL INSTRUMENTS

5.1 Capital risk management

The Company's objective when managing capital is to safeguard the entity's 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 and reserves excluding accumulated other comprehensive loss as summarized in the following table:

	As at October 31, 2020		As at April 30, 2020
Shareholders' capital	\$ 52,868	\$	52,868
Contributed surplus	2,675		2,675
Deficit	(43,630)		(43,278)
	\$ 11,913	\$	12,265

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. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, or draw on its line of credit.

See note 10 - Credit Facility for a description of the Company's externally imposed covenants.

5.2 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, 2020, the Company had outstanding US dollar hedge contracts with settlement dates from November 2020 to May 2021. During the quarter, the company unwound contracts with nominal values of US \$13,500 to \$16,875, which generated proceeds of \$45 USD (\$60 CAD). The total notional amounts under the contracts are US \$13,000 to \$16,250 (2019 - \$37,500 to \$46,875). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell US dollars at rates ranging from \$1.300 CAD/USD to \$1.412 CAD/USD (2019 - \$1.270 CAD/USD to \$1.410 CAD/USD). These contracts had a mark-to-market unrealized loss of \$134 (US \$101) as at October 31, 2020 (2019 – unrealized loss of \$365 or US \$277), which was recognized on the Interim Condensed Consolidated Statements of Financial Position as derivative assets and liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the US currency exchange rate, reclassification of unrealized gains or losses to realized gains or losses are recognized in the Interim Condensed Consolidated Statements of Operations as unrealized gain or loss on derivatives.

There were no realized gains or losses on the settlement of contracts during the second quarter ended October 31, 2020 (2019 – nil realized gains or losses), and \$251 realized losses for the six months ended October 31, 2020 (2019 – nil realized gains or losses).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

	As at October 31, 2020	As at October 31, 2019
Fair value of derivative liabilities, beginning of period	\$ (3,391)	\$ (1,397)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	(787)	(912)
Reversal of derivative assets of contracts settled	665	268
Increase in fair values of outstanding contracts	3,379	1,676
Net increase in fair value of derivative liabilities recognized during the period	3,257	1,032
Fair value of derivative liabilities, end of period	\$ (134)	\$ (365)
Liabilities		
Current	(134)	(125)
Long-term	-	(240)
	\$ (134)	\$ (365)

5.3 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, 2020, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately \$25 on the Company's pre-tax earnings (2019 – \$150).

Based on the US dollar denominated assets and liabilities as at October 31, 2020, a 1% change in the Canadian dollar against the US dollar would have an impact of \$306 on the unrealized exchange gain or loss reported in the Interim Condensed Consolidated Statements of Operations (2019 - \$135) and an impact of \$182 on the Interim Condensed Consolidated Statements of Comprehensive Loss (2019 - \$263).

5.4 Credit risk management

The Company's cash, trade accounts receivable and derivative assets are subject to the risk that the counter-parties may fail to discharge their obligation to pay the Company. As at October 31, 2020, the Company's maximum direct exposure to credit risk is \$9,397 (April 30, 2020 - \$16,140).

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable and establishing a loss allowance for expected credit losses ("ECL") based on specific customer information and general historical trends. Trade receivables consist of a large number of customers spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at October 31, 2020, ECL was \$182 (April 30, 2020 - \$216).

5.5 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 debt-free and has access to financing facilities which were unused at the end of the reporting period (2019 - unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

5.6 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).

The following table illustrates the classification of financial liabilities in the fair value hierarchy as at October 31, 2020:

	Level 1	Level 2	Level 3
Derivative financial liabilities	-	(134)	-
Total net financial liabilities	\$ -	\$ (134)	\$ -

The following table illustrates the classification of financial liabilities in the fair value hierarchy as at April 30, 2020:

	Level 1	Level 2	Level 3
Derivative financial liabilities	-	(3,391)	-
Total net financial liabilities	\$ -	\$ (3,391)	\$ -

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

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

6. ISSUED CAPITAL

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

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

⁽¹⁾ On October 30, 2020, the Class A multiple voting shares previously held by Bhayana Management Ltd. and The Madan and Raksha M. Bhayana Family Foundation (collectively, the "Bhayana Family"), were converted into Class B subordinate voting shares. Subsequently, by way of a private placement, Pender Growth Fund ("PGF"), an unrelated party, entered into a Share Purchase Agreement (the "Purchase Agreement") with the Bhayana Family pursuant to which PGF purchased a total of 6,886,981 Class B subordinate voting shares. Subsequent to the second quarter of fiscal 2021 on November 18, 2020, PGF completed the second and final tranche of the share purchase transaction. Upon closing the final tranche, PGF and other funds managed by PenderFund Capital Management Ltd. hold in aggregate 7,927,321 subordinate voting shares, or approximately 55.12% of the total issued and outstanding subordinate voting shares of Inscope.

7. EARNINGS (LOSS) INCOME PER SHARE

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

	Three months ended October 31		Six months ended October 31	
	2020	2019	2020	2019
Net (loss) income	\$ (3,732)	\$ 392	\$ (352)	\$ (352)
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) income per share	\$ (0.26)	\$ 0.03	\$ (0.02)	\$ (0.02)

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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8. SEGMENTED REPORTING

Inscap's reportable segments include Furniture and Walls. Aggregated in the Furniture segment are Systems, Benching, Storage and Seating. The 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:

Segmented Sales	Three Months Ended October 31		Six Months Ended October 31	
	2020	2019	2020	2019
Furniture	\$ 5,594	\$ 17,184	\$ 13,316	\$ 32,494
Walls	1,563	6,138	5,211	11,505
	<u>\$ 7,157</u>	<u>\$ 23,322</u>	<u>\$ 18,527</u>	<u>\$ 43,999</u>

Segmented (loss) Income	Three Months Ended October 31		Six Months Ended October 31	
	2020	2019	2020	2019
Furniture	\$ (1,322)	\$ 770	\$ (3,778)	\$ 687
Walls	(3,553)	(512)	(2,312)	(1,914)
	<u>(4,875)</u>	<u>258</u>	<u>(6,090)</u>	<u>(1,227)</u>
Unrealized gain (loss) on foreign exchange	39	(25)	(295)	(56)
Other income	589	-	2,782	-
Unrealized gain on derivatives	519	184	3,257	1,032
Loss on sale of property, plant and equipment & intangibles	-	(24)	-	(52)
Investment income	1	2	1	7
Net (loss) income before taxes	<u>(3,727)</u>	<u>395</u>	<u>(345)</u>	<u>(296)</u>
Income taxes	<u>(5)</u>	<u>(3)</u>	<u>(7)</u>	<u>(56)</u>
Net (loss) income	<u>\$ (3,732)</u>	<u>\$ 392</u>	<u>\$ (352)</u>	<u>\$ (352)</u>

9. SUPPLEMENTAL INFORMATION

9.1 Salaries, wages and benefits

Included in:	Three months ended October 31		Six months ended October 31	
	2020	2019	2020	2019
Cost of goods sold	\$ 2,055	\$ 4,426	\$ 4,655	\$ 8,671
Selling, general and administrative	2,708	3,462	5,351	7,571
	<u>\$ 4,763</u>	<u>\$ 7,888</u>	<u>\$ 10,006</u>	<u>\$ 16,242</u>

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

9.2 Amortization and depreciation

	Three months ended October 31		Six months ended October 31	
	2020	2019	2020	2019
Included in:				
Cost of goods sold	\$ 361	\$ 165	\$ 719	\$ 328
Selling, general and administrative	669	681	1,323	1,359
	<u>\$ 1,030</u>	<u>\$ 846</u>	<u>\$ 2,042</u>	<u>\$ 1,687</u>

10. CREDIT FACILITY

The Company has a demand credit facility for foreign exchange contracts of US\$8,000 and a demand operating credit facility of the lesser of \$5,000, or the borrowing base limit with its bank. Although the Company had no borrowings as at October 31, 2020, the Company was not in compliance with one of its financial covenants and received a waiver from its bank on December 1, 2020 (2019 – in compliance). The interest rate on the demand operating credit facility is Prime Rate plus 1.0% for Canadian dollar loans, US Base Rate plus 1.0% for US dollar loans, 2.5% for Canadian dollar Banker's Acceptance and 2.5% for US dollar Libor loans. The agreement is secured by the Company's property based on its accounts receivable and inventory (borrowing base).

The credit facility agreement has the following covenants:

1. The ratio of "total liabilities less postponed debt" to "shareholders' equity less intangible assets" does not exceed 1.6 to 1.0 at any time, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.25 to 1.0, measured quarterly.

As at October 31, 2020, the Company has not drawn on the demand credit facility (2019 – not drawn) and is currently in negotiation with its Bank to amend the terms of the covenants.

11. OTHER INCOME

Forgivable Government Loan and Government Assistance

In response to the COVID-19 pandemic, the Company received from the US government an unsecured forgivable loan of \$1,808 (US\$1,300) at 1.0% per annum, repayable in 24 months. The indebtedness may be forgiven subject to the terms of the Paycheck Protection Program. The loan is forgivable if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent or utilities. For the period ended October 31, 2020, the Company fully utilized the remaining balance of the forgivable loan on \$1,199 of the qualifying expenditures (2020 - \$517). The latter to be released into income on a systematic basis per IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.

In addition, the Company applied for and received grants from the Canadian government under the Canadian Emergency Wage Subsidy ("CEWS") program. During the quarter, the Company incurred qualifying expenditures of \$590, of which subsidies of \$698 were received and a receivable of \$108 is included in trade and other receivables in the Interim Condensed Consolidated Statements of Financial Position.

For the six months ended October 31, 2020 the Company incurred qualifying expenditures of \$2,801, of which subsidies of \$1,510 were received and a receivable of \$1 is included in trade and other receivables in the Interim Condensed Consolidated Statements of Financial Position. Given the extension of this program by the Canadian government, once eligible, the Company will continue to apply for this assistance.

INSCAPE CORPORATION

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended October 31, 2020 and 2019

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

Other income during the period:	Three months ended October 31		Six months ended October 31	
	2020	2019	2020	2019
Forgivable Government Loan/ Government Assistance:				
SBA forgivable loan, utilized ¹	\$ -	\$ -	\$ (1,292)	\$ -
CEWS received and utilized	(698)	-	(1,510)	-
CEWS receivable, but utilized	108	-	1	-
	(590)	-	(2,801)	-
Other	1	-	19	-
	\$ (589)	\$ -	\$ (2,782)	\$ -

¹ The qualifying expenditures were executed during the quarter.

12. RELATED PARTY TRANSACTIONS

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

	Three Months Ended October 31		Six Months Ended October 31	
	2020	2019	2020	2019
Salaries and short-term benefits	\$ 330	\$ 564	\$ 796	\$ 1,112
Post-employment benefits	4	12	11	23
Share-based compensations	212	(80)	202	(350)
	\$ 546	\$ 496	\$ 1,009	\$ 785

Other Related Party Transactions

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

13. INCOME TAXES

	Three months ended October 31		Six months ended October 31	
	2020	2019	2020	2019
Current income tax expense	\$ 5	\$ 3	\$ 7	\$ 56
	\$ 5	\$ 3	\$ 7	\$ 56

During the quarter, the company recorded \$5 (2019 - \$3) of income tax expense and \$7 (2019 - \$56) for the six month period ended October 31, 2020, related to State and miscellaneous tax.

14. 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.