



Annual Report 2019

inscape

work for tomorrow



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Letter to Shareholders

Year over year organic sales growth confirms that our investments in sales, marketing and product development are starting to materialize. These investments lay the foundation for growth and are expected to provide benefits in the new fiscal year.

Our financial position remains strong and we enter our new fiscal year with a focus on margin expansion initiatives to achieve strong profitable growth.

We thank our leadership team, employees, and partners for their commitment and our Board of Directors for their ongoing guidance and support.

A handwritten signature in black ink, reading "Bartley Bull." in a cursive style.

Bartley Bull,
Chairman

A handwritten signature in black ink, reading "Brian A. Mirsky" in a cursive style.

Brian A. Mirsky,
Director and Chief Executive Officer



Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") of operating results and financial condition of Inscope Corporation and its subsidiaries ("Inscope" or "the Company") for the year ended April 30, 2019 should be read in conjunction with the accompanying [Consolidated Financial Statements](#) and [Notes](#) for the years ended April 30, 2019 and 2018.

The discussion and analysis are as of June 27, 2019 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 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"). Inscope calculates EBITDA as earnings before interest, taxes, depreciation and amortization with the exclusion of share-based compensation, severance and unrealized derivative and foreign exchange gains or losses. Management believes EBITDA is a useful measure that facilitates period-to-period operating comparisons and we believe some investors and analysts use it as well. This measure, as calculated by Inscope, 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 adjusted net income or loss before taxes which excludes derivative fair value adjustments, unrealized exchange gains or losses and non-recurring expenses. Management believes adjusted net income or loss is a useful measure that facilitates period-to-period operating comparisons. The adjusted net income or loss before taxes is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is 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 obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

Company Profile and Core Business

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

Since 1888, Inscape has been designing products and services that are focused on the future. We invest in innovation today, to enable our customers to do their best work tomorrow. Through our simple and adaptable solutions, we're able to help businesses evolve and expand, knowing their spaces can grow and transform along with them.

The Company reports in two business segments, Office Furniture and Walls. The Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Walls segment includes architectural and movable walls. The West Elm Workspace business ceased operations on June 29th, 2018. Currently the Company's head office is located in Holland Landing, Ontario. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

Vision & Strategy

Management has identified five key strategic initiatives which focus on building a strong foundation for future growth.

1

Focus the Portfolio

Invest in new product development in high growth and high profit product categories. Review existing portfolio of product categories to determine long term viability.

2

Develop the Inscape Brand

Develop unique selling proposition, increase awareness with Architects and Designers and improve the website experience.

3

Build Distribution

Focus investment in high opportunity and high margin markets. Continue to develop strong Dealer presence in these markets to drive sales growth. Increase proportion of larger customers which provide recurring annual sales.

4

Improve Capacity Utilization

Improve manufacturing efficiencies and other costs related to product fulfillment. Conduct product rationalization analysis to identify products that are either not profitable or have low sales volume.

5

Build Capability

Encompasses implementing business process improvements and technology to enhance performance and improving talent base.

Overview

Fiscal year 2019 compared to fiscal year 2018

Fiscal year 2019 sales decreased by \$3.4 million or 3.6% compared to the prior year. Furniture business unit sales declined as the Company exited an unprofitable business which contributed \$12.4M in net sales in fiscal 2018. Excluding sales from the unprofitable business, fiscal 2019 sales increased by 9.2% over the prior year. The benefits from the Company's increased investment in sales, marketing and product development initiatives in fiscal 2018 and 2019 are now materializing.

In fiscal year 2019, the Company incurred a net loss of \$8.7 million or 61 cents per share, compared to a net loss of \$3.0 million, or 21 cent per share a year ago. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2019 had an adjusted net loss before taxes of \$6.9 million compared with last year's adjusted net loss before taxes of \$5.1 million. Unfavourable sales mix combined with incremental investments in sales, marketing and product development initiatives accounted for the majority of the increase in adjusted net loss.

Fiscal year 2018 compared to fiscal year 2017

Fiscal year 2018 sales decreased by \$1.3 million or 1.4% compared to the prior year. Both the Furniture and Walls business units contributed to the decline in sales. In fiscal 2017, the Company benefited from 2 large non recurring projects totaling \$5 million. Excluding sales from an unprofitable business unit and the 2 large non recurring project sales, fiscal 2018 sales grew 4% over the prior year which is in line with industry growth. The Company increased its investment in sales, marketing and product development initiatives to grow sales however the benefits from these investments will not be realized until fiscal 2019.

In fiscal year 2018, the Company incurred a net loss of \$3.0 million or 21 cents per share, compared to a net loss of \$0.2 million, or 1 cent per share in the prior year. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2018 had an adjusted net loss before taxes of \$5.1 million compared with last year's adjusted net income before taxes of \$4.0 million. Losses incurred from an unprofitable business unit, unfavourable sales mix and incremental investments in sales, marketing and product development initiatives accounted for the majority of the increase in adjusted net loss.

Financial Highlights

(in thousands, except for per share amounts)

| THREE MONTHS ENDED APRIL 30 | | | |
|---|------------------|------------------|--|
| | 2019 | 2018 | |
| Sales | \$ 18,629 | \$ 21,514 | |
| Net loss | \$ (4,420) | \$ (4,788) | |
| Basic and diluted loss per share | \$ (0.31) | \$ (0.33) | |
| Adjusted net loss before taxes | \$ (3,349) | \$ (3,675) | |
| EBITDA | \$ (2,723) | \$ (2,940) | |
| YEARS ENDED APRIL 30 | | | |
| | 2019 | 2018 | |
| Sales | \$ 90,583 | \$ 93,936 | |
| Net loss | \$ (8,746) | \$ (2,992) | |
| Basic and diluted loss per share | \$ (0.61) | \$ (0.21) | |
| Adjusted net loss before taxes | \$ (6,851) | \$ (5,105) | |
| EBITDA | \$ (4,708) | \$ (2,638) | |
| Total assets | \$ 39,527 | \$ 44,582 | |
| Total liabilities | \$ 22,434 | \$ 18,255 | |
| Weighted average number of shares for basic and diluted EPS | 14,380,701 | 14,380,701 | |
| Cash, cash equivalents and short-term investments | \$ 3,265 | \$ 8,994 | |

Results of Operations

| SALES (in thousands) | FISCAL 2019 | FISCAL 2018 | CHANGE |
|-----------------------------|--------------------|-------------|---------|
| Three Months Ended April 30 | \$ 18,629 | \$ 21,514 | (13.4%) |
| Years Ended April 30 | \$ 90,583 | \$ 93,936 | (3.6%) |

Sales in the fourth quarter were 13.4% lower than the same quarter of last year. Excluding the impact of an unprofitable business, sales in the fourth quarter were 7.7% higher than the same quarter of last year led by strong Furniture sales.

The fiscal 2019 annual sales of \$90.6 million were 3.6% lower than the previous year's sales of \$93.9 million. Excluding the impact of an exited business, sales for fiscal 2019 were 9.2% higher than fiscal 2018. Sales growth occurred in both the Furniture and Walls business units.

| GROSS PROFIT (in thousands) | FISCAL 2019 | % OF SALES | FISCAL 2018 | % OF SALES |
|------------------------------------|--------------------|-------------------|-------------|------------|
| Three Months Ended April 30 | \$ 4,090 | 22.0% | \$ 4,896 | 22.8% |
| Years Ended April 30 | \$ 24,382 | 26.9% | \$ 25,163 | 26.8% |

The fourth quarter gross profit as a percentage of sales of 22.0% was 0.8 percentage points lower than the same quarter of last year. Lower sales volume and higher Walls manufacturing costs contributed to the gross profit decline.

Fiscal year 2019 gross profit as a percentage of sales increased 0.1 percentage points from last year's 26.8% to the current year's 26.9%. Manufacturing efficiencies realized were offset by unfavourable product mix and higher manufacturing costs of the Walls business unit.

| SELLING, GENERAL & ADMINISTRATIVE EXPENSES (SG&A) (in thousands) | FISCAL 2019 | % OF SALES | FISCAL 2018 | % OF SALES |
|---|--------------------|-------------------|-------------|------------|
| Three Months Ended April 30 | \$ 7,879 | 42.3% | \$ 8,374 | 38.9% |
| Years Ended April 30 | \$ 31,767 | 35.1% | \$ 30,623 | 32.6% |

SG&A for the quarter was 42.3% of sales, compared with last year's 38.9%. The current quarter SG&A of \$7.9 million was \$0.5 million lower than the same quarter of last year due to costs associated with an unprofitable business unit are not included in the current quarter. This is offset by investments in marketing, sales coverage and supply chain initiatives.

SG&A for the year was 35.1% of sales versus 32.6% last year. The SG&A expense of \$31.8 million was \$1.2 million or 2.5% higher than last year, mainly due to incremental investments in marketing, sales coverage and supply chain initiatives.

| NET LOSS (in thousands) | FISCAL 2019 | % OF SALES | FISCAL 2018 | % OF SALES |
|--------------------------------|--------------------|-------------------|-------------|------------|
| Three Months Ended April 30 | \$ (4,420) | (23.7%) | \$ (4,788) | (22.3%) |
| Years Ended April 30 | \$ (8,746) | (9.7%) | \$ (2,992) | (3.2%) |

The fourth quarter net loss of \$4.4 million is lower than the net loss of \$4.8 million in the same quarter of last year. Both reporting periods had several unrealized, unusual and non-controllable items that in total had a very significant impact on

the net loss. With the exclusion of these items, the fourth quarter of fiscal 2019 had an adjusted net loss before taxes of \$3.3 million, compared with adjusted net loss before taxes of \$3.7 million in the same quarter of last year. The adjusted net loss before taxes of \$3.3 million in the quarter is inclusive of incremental investment in sales, marketing and product development.

Fiscal year 2019 ended with a net loss of \$8.7 million, compared to a net loss of \$3.0 million in fiscal year 2018. Similar to the quarterly results, both reporting periods had several unrealized, unusual and mostly non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these unusual items, the full year fiscal 2019 had an adjusted net loss before taxes of \$6.9 million compared to adjusted net loss before taxes of \$5.1 million in the prior year.

The adjusted net income or loss is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

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

| | THREE MONTHS ENDED APRIL 30 | | YEARS ENDED APRIL 30 | |
|---|-----------------------------|-------------------|----------------------|-------------------|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Net loss before taxes | \$ (4,400) | \$ (5,205) | \$ (8,726) | \$ (3,409) |
| Adjust non-operating or unusual items: | | | | |
| Unrealized loss (gain) on derivatives | \$ 692 | \$ 1,809 | \$ 1,746 | \$ (2,566) |
| Unrealized (gain) loss on foreign exchange | \$ (78) | \$ (287) | \$ (81) | \$ 363 |
| (Increase) Decrease in fair value of short-term investments | \$ — | \$ 20 | \$ — | \$ 20 |
| Loss (gain) on disposal of capital assets & intangibles | \$ 1 | \$ 217 | \$ (294) | \$ 217 |
| Stock based compensation | \$ 272 | \$ (342) | \$ 256 | \$ (635) |
| Severance obligation | \$ 164 | \$ 113 | \$ 248 | \$ 905 |
| Adjusted net loss before taxes | \$ (3,349) | \$ (3,675) | \$ (6,851) | \$ (5,105) |

Income Tax

In accordance with IFRS requirements, deferred tax benefits relating to tax loss carry-forward were not recognized during fiscal 2019. See [notes to the consolidated financial statements](#) which includes a reconciliation of the income tax expense and valuation allowance.

Investment Income

The Company earned interest income and dividends from short-term investments of its excess cash in money market instruments and preferred shares. The investments generated investment income of \$0.03 million in fiscal year 2019 and \$0.07 million in fiscal year 2018.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the previous eight quarters from July 31, 2017 through April 30, 2019 is provided below:

Selected Quarterly Information

(in thousands, except per share amounts)
(Unaudited)

| | QUARTERS ENDED | | | |
|---|----------------|--------------|--------------|---------------|
| | APR 30, 2019 | JAN 31, 2019 | OCT 31, 2018 | JULY 31, 2018 |
| Sales | \$ 18,629 | \$ 28,878 | \$ 21,850 | \$ 21,226 |
| Gross profit | \$ 4,090 | \$ 8,240 | \$ 6,560 | \$ 5,492 |
| Gross profit % | 22.0% | 28.5% | 30.0% | 25.9% |
| Net (loss) income | \$ (4,420) | \$ 1,300 | \$ (2,421) | \$ (3,205) |
| Basic and diluted (loss) income per share | \$ (0.31) | \$ 0.09 | \$ (0.17) | \$ (0.22) |
| Adjusted net (loss) income before taxes | \$ (3,349) | \$ 1,055 | \$ (2,098) | \$ (2,459) |
| EBITDA | \$ (2,723) | \$ 1,606 | \$ (1,609) | \$ (1,982) |

| | QUARTERS ENDED | | | |
|---|----------------|--------------|--------------|---------------|
| | APR 30, 2018 | JAN 31, 2018 | OCT 31, 2017 | JULY 31, 2017 |
| Sales | \$ 21,514 | \$ 25,906 | \$ 23,209 | \$ 23,307 |
| Gross profit | \$ 4,896 | \$ 7,009 | \$ 6,065 | \$ 7,193 |
| Gross profit % | 22.8% | 27.1% | 26.1% | 30.9% |
| Net (loss) income | \$ (4,788) | \$ 1,300 | \$ (2,562) | \$ 3,058 |
| Basic and diluted (loss) income per share | \$ (0.33) | \$ 0.09 | \$ (0.18) | \$ 0.21 |
| Adjusted net (loss) income before taxes | \$ (3,675) | \$ (284) | \$ (731) | \$ (415) |
| EBITDA | \$ (2,940) | \$ 294 | \$ (155) | \$ 163 |

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

Liquidity and Capital Resources

Cash Flow Summary

| | THREE MONTHS ENDED APRIL 30 | |
|--|------------------------------------|-------------|
| (in thousands) | FISCAL 2019 | FISCAL 2018 |
| Net cash flow generated from (used in): | | |
| Operating activities before changes in working capital | \$ (1,974) | \$ (2,951) |
| Net change in working capital | \$ 3,277 | \$ 2,953 |
| Investing activities | \$ (134) | \$ (510) |
| Foreign exchange gain on cash and cash equivalents | \$ (803) | \$ 212 |
| Net increase (decrease) in cash and cash equivalents | \$ 366 | \$ (296) |
| Cash and cash equivalents, beginning of period | \$ 2,899 | \$ 5,676 |
| Cash and cash equivalents, end of period | \$ 3,265 | \$ 5,380 |

| | TWELVE MONTHS ENDED APRIL 30 | |
|---|-------------------------------------|-------------|
| (in thousands) | FISCAL 2019 | FISCAL 2018 |
| Net cash flow generated from (used in): | | |
| Operating activities before changes in working capital | \$ (3,870) | \$ (3,942) |
| Net change in working capital | \$ 1,162 | \$ 3,160 |
| Investing activities | \$ 1,315 | \$ (688) |
| Foreign exchange (loss) gain on cash and cash equivalents | \$ (722) | \$ (386) |
| Net (decrease) increase in cash and cash equivalents | \$ (2,115) | \$ (1,856) |
| Cash and cash equivalents, beginning of year | \$ 5,380 | \$ 7,236 |
| Cash and cash equivalents, end of year | \$ 3,265 | \$ 5,380 |

The fourth quarter cash outflow from operations (before changes in working capital) was \$2.0 million compared to the previous year outflow of \$3.0 million. The previous year outflow included costs to exit an unprofitable business which contributed to the variance compared to the fourth quarter in 2019. Net increase in working capital of \$3.3 million consisted primarily of higher accounts receivable at the end of the fourth quarter. Cash outflow of \$0.1 million from investing activities was comprised of capital expenditures.

On an annual basis, fiscal 2019 cash outflow from operations (before changes in working capital) was \$3.9 million, compared to a cash outflow of \$3.9 million in the previous year. Higher operating losses including incremental investments in SG&A accounted for the majority of the outflow. Net increase in working capital of \$1.2 million consisted of higher accounts payable. Cash outflow of \$1.3 million from investing activities consisted of \$2.3 million spent in capital expenditures offset by \$3.6 million funding from short-term investments.

Credit Facility

The Company has a demand credit facility for foreign exchange contracts of \$10,000 and a demand operating facility of \$10,000 with its bank. Although the Company had no borrowings as at April 30, 2019 the Company was not in compliance with one of its financial covenants and received a waiver from its bank on June 26, 2019 (2018 – in compliance). On June 26, 2019, the demand operating credit facility was amended from \$10,000 to the lesser of \$5,000, or the borrowing base limit. The interest rate on the demand operating facility is Prime Rate plus 0.25% for Canadian dollar loans, US Base Rate plus 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's property.

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 1.4 to 1.0 at any time measured quarterly. | 2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.5 to 1.0, measured quarterly. |
|---|--|

As at April 30, 2019, the Company has not drawn on the demand operating credit facility. (2018 – not drawn).

Contractual Obligations

The following is a summary of the Company's contractual obligations as at April 30, 2019:

| (in millions) | | PAYMENTS DUE BY PERIOD | | | |
|----------------------------|----|------------------------|----------------|-------------|---------------|
| | | TOTAL | 1 YEAR OR LESS | 1 – 5 YEARS | AFTER 5 YEARS |
| Operating leases | \$ | 5.1 | \$ 1.5 | \$ 2.9 | \$ 0.7 |
| Foreign exchange contracts | | 65.8 | 48.9 | 16.9 | — |
| | \$ | 70.9 | \$ 50.4 | \$ 19.8 | \$ 0.7 |

Operating leases are in respect of various real properties and machinery that the Company leases. See “Financial Instruments” discussed below for the Company's obligations for foreign exchange contracts and IFRS 16 on Leases.

Off-Balance Sheet Arrangements

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

Share Capital

The Company has 3,345,881 Class A multiple voting shares and 11,034,820 Class B subordinated voting shares outstanding at April 30, 2019. The Class A multiple voting shares carry ten votes each. The Class B subordinated voting shares, which are listed on the Toronto Stock Exchange, carry one vote each.

On July 11, 2018 one of the Company's shareholders, Bhayana Management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis.

Related Party Transactions

The following was the remuneration of directors and other members of key management personnel, including Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Brand Officer, VP Operations, VP Product Development and VP Human Resources. Compensation of the Chief Executive Officer and two directors are paid through companies they control.

| (in thousands) | Three Months Ended April 30 | | Years Ended April 30 | |
|----------------------------------|-----------------------------|----------|----------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Salaries and short-term benefits | \$ 362 | \$ 758 | \$ 2,084 | \$ 2,370 |
| Post-employment benefits | \$ 52 | \$ 11 | \$ 52 | \$ 32 |
| Share-based compensation | \$ 272 | \$ (468) | \$ 256 | \$ (635) |
| | \$ 686 | \$ 301 | \$ 2,392 | \$ 1,767 |

During the year, the Company incurred expenses of \$nil (2018 – \$42) to a former related party for goods and services. Fiscal 2018 negative amounts in share-based compensation resulted from the decline in the Company's share price.

Future Accounting Changes

The following new standards, amendments, and interpretations that have been issued may have an impact to the Company, but are not effective for the fiscal year ended April 30, 2019, and accordingly, have not been applied in preparing the financial statements. The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). The standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The standard requires lessees to recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. If the implicit rate is not available then the Company's incremental borrowing rate is used. IFRS 16 supersedes IAS 17, Leases, and its related interpretations, and is effective for periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

IFRS 16 is expected to have a material impact on the Company's Consolidated Balance Sheets, with the addition of approximately \$4,400 of lease liabilities and \$4,100 of right-of-use assets. Lease-related expenses previously recorded in selling, general and administrative expenses, primarily as occupancy costs, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's Consolidated Statements of Cash Flows, but does not cause a difference in the amount of cash transferred between the parties of a lease.

IFRS 16 will be applied in fiscal 2020 using the modified retrospective approach and the Company will therefore not be restating comparative information. In addition, the Company has elected to use the following practical expedients on adoption of IFRS 16:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standard (IAS 17);
- the Company will exclude the initial direct costs in the measurement of the right-of-use asset on transition; and
- the Company will use hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

IFRS Interpretations Committee ("IFRIC") 23, Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance to be applied in the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, Income Taxes ("IAS 12"). IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23"), was issued by the IASB in June 2017 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently determining the impact on the consolidated financial statements.

Significant Accounting Policies and Estimates

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 critical estimates and judgments in applying accounting policies

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

Significant Critical 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 judgment and review of known exposures, credit worthiness, and collection experience) to be recognized from initial recognition of the receivables.

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

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

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

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

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

Significant Critical Estimates

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

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

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

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

New Accounting Standards Adopted

IFRS 15

Inscape has adopted IFRS 15, Revenue from Contracts ("IFRS 15") as issued by the IASB in July 2014, effective January 1, 2018.

The Company adopted the standard effective May 1, 2018 using the modified retrospective approach, which resulted in no adjustment to opening retained earnings. Comparative information has not been restated and continues to be reported under previous accounting standards. After completing the analysis of its customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of retained earnings, however IFRS 15 does impact the accounting for the Company's dealer incentive programs.

The costs of incentive programs were previously presented within selling, general and administrative expenses are now presented as a reduction of revenue.

The following table shows the effect of the adoption of IFRS 15 on the Company's consolidated statement of operations for the year ended April 30, 2019 (Reported):

| | FOR THE YEAR ENDED APRIL 30, 2019 (REPORTED) | BALANCES WITHOUT ADOPTION OF IFRS 15 | EFFECT OF CHANGE HIGHER (LOWER) |
|-------------------|---|---|---------------------------------------|
| Sales | \$ 90,583 | \$ 91,074 | \$ (491) |
| Gross Profit | 24,382 | 24,873 | (491) |
| SG&A | 31,767 | 32,258 | (491) |
| Loss before taxes | \$ (8,726) | \$ (8,726) | \$ — |

As a result of adopting IFRS 15, the Company updated its accounting policies for recognition of revenue relating to the sale of goods and the Company's dealer incentive programs.

IFRS 9

Inscape has adopted IFRS 9, Financial Instruments ("IFRS 9") effective May 1, 2018 and, in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The adoption resulted in no impact to the financial statements and, no adjustment was made to equity as of May 1, 2018.

Beginning May 1, 2018, financial assets are classified at initial recognition at fair value through: i) profit or loss ("FVTPL"), ii) amortized cost, iii) debt financial instruments measured at fair value through other comprehensive income ("FVOCI"), iv) equity financial instruments designated at FVOCI, or v) financial instruments designated at FVTPL, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed. All financial assets are measured at fair value with the exception of financial assets measured at amortized cost. Financial assets are reclassified when and only when the business model under which they are managed has changed.

Financial Instruments

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

As at April 30, 2019, the Company had outstanding U.S. dollar hedge contracts with settlement dates from May 2019 to August 2020. The total notional amounts under the contracts are U.S. \$41,000 to \$51,400 (2018 – \$35,700 to \$44,675). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.24 CAD/USD to \$1.41 CAD/USD (2018 – \$1.24 CAD/USD to \$1.45 CAD/USD). These contracts had a mark-to-market unrealized loss of \$1,397 (U.S. \$1,042) as at April 30, 2019 (2018 – unrealized gain of \$349 or U.S. \$272), which was recognized on the consolidated statement of financial position as derivative liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the U.S. currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statement of operations as unrealized gain or loss on derivatives of the year. There were realized gains of \$3 on the settlement of contracts during fiscal year 2019 (2018 – \$293).

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.

General economic and market conditions

Demand for office furniture is sensitive to general economic conditions such as the white-collar employment rate, corporate growth and profitability, government spending, office relocations and commercial property development. The Company manages to moderate the impact of this risk by increasing the differentiation of our products to attract new customers, the launching of new products to gain market share and enhancing the coverage of customers and designers.

Competitive environment

Office furniture is a mature and highly competitive industry. Our main competitors include global companies with strong brand name recognition and capability to utilize offshore outsourcing. This competitive environment results in price pressure and limits certain distributors' ability to carry Inscape products along with those of the competitors. The Company competes on product design, functionality, innovation and customer service. Our success will depend on building a distribution network that is aligned with Inscape, targeting committed dealers who lead with Inscape's product lines and automating processes to keep improving our productivity, quality and customer service.

Raw material and commodity costs

Fluctuations in raw material and commodity prices could have a significant impact on the Company's cost of sales and operating results. Since most of the raw materials and commodities used by the Company are not unique to the office furniture industry, their costs are often affected by supply and demand in other industries and countries. As a result, the Company may experience rising raw material and commodity costs that cannot be recovered from customers in a highly competitive environment. The Company manages its manufacturing costs by locking in supply contract prices, improving production yields, reducing spoilage, focusing on quality control and overseas sourcing, where appropriate.

U.S. dollar exchange rate

The U.S. is the main market for the Company. Fluctuations in the U.S./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 U.S. dollar hedge instruments. The hedge instruments provide the Company with an opportunity to lock in the U.S. currency conversion rate at a prevailing hedge rate to facilitate the business planning process with pre-determined exchange rate exposure. However, the instruments do not completely eliminate the effects of exchange rate fluctuations. To minimize the effect of exchange rate fluctuations, the Company endeavors to create natural hedges through increasing U.S. suppliers where appropriate and seeks to increase Canadian dollar sales.

Access to the U.S. markets

The Company depends heavily on unrestricted access to the U.S. markets as a significant portion of the Company's sales is derived from there. The Company's business, operating results, cash flows and financial condition will be seriously affected if access to the U.S. markets is restricted due to political, social, economic or regulatory reasons. Buy America sentiment and regulations may deny the Company's chance in bidding contracts, especially with the government. The Company needs to monitor closely developments in various U.S. statutes, regulations, procurement requirements and border crossing restrictions. Where appropriate, the Company publicizes its extensive investment in the U.S. and contribution to the economy by operating a production plant in New York State, providing employment opportunities in different states and purchasing from U.S. suppliers.

Effectiveness of market representatives

The Company relies on the effectiveness of independent market representatives to market our products to customers. A market representative may choose to terminate its relationship with us or the effectiveness of a market representative may decline. Disruption of the relationship or transition of an underperforming representative could have an adverse impact on our business in the affected market. The Company manages this risk by maintaining strong connection to performing representatives at the regional senior management level. The Company also assesses the effectiveness of the representatives on a regular basis.

Effectiveness of growth strategy implementation

The Company seeks to grow its business and market share by building committed distribution, developing products and applications to meet customer needs, and providing visualization tools to assist designers and clients with solutions for workspaces. Effective implementation of these strategies is essential to the future growth of the Company. The Company's sales and results of operations will be adversely affected if there are delays or difficulties in carrying out the strategies.

Controls and Procedures

Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

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

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

During the year ended April 30, 2019, there has been no change in the Company’s ICFR that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues,



including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.



Management Report

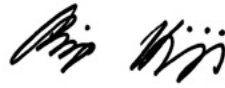
TO THE SHAREHOLDERS OF INSCAPE CORPORATION

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of Management. The financial statements have been prepared in accordance with International Financial Reporting Standards and reflect Management's best estimates and judgments. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees Management in carrying out its responsibility for financial reporting and systems of internal control. The Audit Committee, which is composed of non-executive directors, meets regularly with Management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.



Brian A. Mirsky,
Director and Chief Executive Officer



Aziz Hirji
Chief Financial Officer

June 27, 2019

Independent Auditor's Report

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF INSCAPE CORPORATION

Opinion

We have audited the consolidated financial statements of Inscap Corporation (the "Company"), which comprise the consolidated statements of financial position as at April 30, 2019 and 2018, and the consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Devin McLeod.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 27, 2019

Consolidated Financial Statements

Consolidated Statements of Financial Position

Years ended April 30 (in thousands of Canadian dollars)

| ASSETS | NOTE | 2019 | 2018 |
|---|---------------------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | \$ 3,265 | \$ 5,380 |
| Short-term investments | | — | 3,614 |
| Trade and other receivables | 5 | 13,416 | 12,002 |
| Inventories | 6 | 6,577 | 6,741 |
| Income taxes receivable | 13 | 9 | 23 |
| Prepaid expenses | | 692 | 927 |
| Fair value of derivative financial assets | 9.2 | — | 547 |
| | | 23,959 | 29,234 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 13,800 | 13,924 |
| Intangible assets | 8 | 1,768 | 1,414 |
| Fair value of derivative financial assets | 9.2 | — | 10 |
| | | 15,568 | 15,348 |
| TOTAL ASSETS | | \$ 39,527 | \$ 44,582 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | \$ 15,157 | \$ 14,022 |
| Fair value of derivative financial liabilities | 9.2 | 1,052 | 127 |
| Provisions | 11 | 387 | 328 |
| | | 16,596 | 14,477 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 11 | 1,053 | 591 |
| Fair value of derivative financial liabilities | 9.2 | 345 | 81 |
| Retirement benefit obligation | 12 | 3,917 | 2,839 |
| Other long-term obligations | 14 | 523 | 267 |
| | | 5,838 | 3,778 |
| TOTAL LIABILITIES | | 22,434 | 18,255 |
| SHAREHOLDERS' EQUITY | | | |
| Shareholders' capital | 15 | 52,868 | 52,868 |
| Contributed surplus | | 2,675 | 2,675 |
| Accumulated other comprehensive loss | | (578) | (90) |
| Deficit | | (37,872) | (29,126) |
| TOTAL SHAREHOLDERS' EQUITY | | 17,093 | 26,327 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 39,527 | \$ 44,582 |

The accompanying [notes](#) are an integral part of these consolidated financial statements.

Approved by the Board of Directors,

Bartley Bull

Bartley Bull, Chairman

Eric Ehgoetz

Eric Ehgoetz, Director

Consolidated Statements of Operations

Years ended April 30 (in thousands of Canadian dollars, except where indicated and per share amounts)

| | NOTE | 2019 | 2018 |
|---|----------------------|-------------------|------------|
| Sales | 18 | \$ 90,583 | \$ 93,936 |
| Cost of goods sold | 19 | 66,201 | 68,773 |
| GROSS PROFIT | | 24,382 | 25,163 |
| EXPENSES | | | |
| Selling, general and administrative | 19 | 31,767 | 30,623 |
| Unrealized (gain) loss on foreign exchange | | (81) | 363 |
| (Gain) loss on disposal of capital assets & intangibles | | (294) | 217 |
| Unrealized loss (gain) on derivatives | 9.2 | 1,746 | (2,566) |
| Investment income | | (30) | (65) |
| | | 33,108 | 28,572 |
| Loss before taxes | | (8,726) | (3,409) |
| INCOME TAX (RECOVERY) | 13.1 | | |
| Current | | 20 | 105 |
| Deferred | | — | (522) |
| | | 20 | (417) |
| NET LOSS | | \$ (8,746) | \$ (2,992) |
| NET LOSS PER SHARE AVAILABLE TO SHAREHOLDERS | 17 | | |
| Basic | | \$ (0.61) | \$ (0.21) |
| Diluted | | \$ (0.61) | \$ (0.21) |

Consolidated Statements of Comprehensive Loss

Years ended April 30 (in thousands of Canadian dollars)

| | | | |
|--|----------------------|-------------------|------------|
| NET LOSS | | \$ (8,746) | \$ (2,992) |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | |
| Items that may not be reclassified to earnings | | | |
| Remeasurement of defined benefit pension liabilities | 12.2 | (865) | 1,953 |
| Items that may be reclassified to earnings | | | |
| Exchange gain (loss) on translating foreign operations | | 377 | (438) |
| Other comprehensive (loss) income | | (488) | 1,515 |
| TOTAL COMPREHENSIVE LOSS | | \$ (9,234) | \$ (1,477) |

The accompanying [notes](#) are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)

| | SHARE CAPITAL | CONTRIBUTED SURPLUS | CUMULATIVE REMEASUREMENT OF DEFINED BENEFIT LIABILITIES | CUMULATIVE TRANSLATION GAIN | DEFICIT | TOTAL SHAREHOLDERS' EQUITY |
|--------------------------------------|------------------|------------------------|--|-----------------------------------|--------------------|----------------------------------|
| Balance, April 30, 2017 | \$ 52,868 | \$ 2,675 | \$ (2,932) | \$ 1,327 | \$ (26,134) | \$ 27,804 |
| Net loss | — | — | — | — | (2,992) | (2,992) |
| Other comprehensive income (loss) | — | — | 1,953 | (438) | — | 1,515 |
| Balance, April 30, 2018 | \$ 52,868 | \$ 2,675 | \$ (979) | \$ 889 | \$ (29,126) | \$ 26,327 |
| Net loss | — | — | — | — | (8,746) | (8,746) |
| Other comprehensive income (loss) | — | — | (865) | 377 | — | (488) |
| Balance, April 30, 2019 | \$ 52,868 | \$ 2,675 | \$ (1,844) | \$ 1,266 | \$ (37,872) | \$ 17,093 |

The accompanying [notes](#) are
an integral part of these consolidated
financial statements.

Consolidated Statements of Cash Flows

Years ended April 30 (in thousands of Canadian dollars)

| | NOTE | 2019 | 2018 |
|---|------|----------------|----------------|
| Net inflow (outflow) of cash related to the following activities: | | | |
| OPERATING | | | |
| Net loss | | \$ (8,746) | \$ (2,992) |
| ITEMS NOT AFFECTING CASH | | | |
| Amortization and depreciation | 7, 8 | 2,171 | 2,532 |
| Non cash pension expense | 12 | — | 647 |
| Unrealized loss on short-term investments held for trading | | — | 20 |
| Unrealized loss (gain) on derivatives | 9.2 | 1,746 | (2,566) |
| Share based compensation | | 256 | (1,188) |
| Unrealized (gain) loss on foreign exchange | | (81) | 363 |
| (Gain) loss on disposal of capital assets & intangibles | | (294) | 217 |
| Deferred tax (recovery) | | — | (504) |
| Pension fund movement | 12 | 1,078 | (471) |
| Cash used for operating activities before non-cash working capital | | (3,870) | (3,942) |
| MOVEMENTS IN NON-CASH WORKING CAPITAL | | | |
| Trade and other receivables | | (805) | (600) |
| Inventories | | 248 | (1,729) |
| Prepaid expenses | | 268 | 291 |
| Accounts payable and accrued liabilities | | 959 | 4,229 |
| Provisions | | 490 | 851 |
| Income tax receivables and payables | | 2 | 118 |
| Cash used for operating activities | | (2,708) | (782) |
| INVESTING | | | |
| Proceeds from sales of short-term investments | | 3,614 | 664 |
| Additions to property, plant and equipment | 7 | (2,148) | (993) |
| Additions to intangible assets | 8 | (153) | (359) |
| Proceeds from disposal of capital assets | | 2 | — |
| Cash (used for) investing activities | | 1,315 | (688) |
| Unrealized foreign exchange loss on cash and cash equivalents | | (722) | (386) |
| Net cash outflow | | (2,115) | (1,856) |
| Cash and cash equivalents, beginning of year | | 5,380 | 7,236 |
| Cash and cash equivalents, end of year | | \$ 3,265 | \$ 5,380 |
| CASH AND CASH EQUIVALENTS CONSIST OF: | | | |
| Cash | | \$ 3,265 | \$ 5,313 |
| Cash equivalents | | — | 67 |
| | | \$ 3,265 | \$ 5,380 |

The accompanying [notes](#) are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1. GENERAL INFORMATION

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 438,000 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, Office Furniture and Walls. The Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Walls segment includes architectural and movable walls. The West Elm Workspace business ceased operations on June 29, 2018. Currently the Company's head office is located in Holland Landing, Ontario. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS including comparatives

These consolidated financial statements have been prepared in accordance with International Financial Accounting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were prepared on a going concern assumption using the historical cost basis

except for financial instruments. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on June 27, 2019.

The consolidated financial statements are presented in Canadian dollars, the functional currency of the Company, 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 Inscape and its two wholly owned U.S. 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.

Revenue recognition

On May 1, 2018, the Company adopted and applied IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The fiscal 2018 financial statements were prepared using IAS 18. The impact of this change has been minimal and is discussed in Note 3, "New Accounting Standards Adopted."

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 when the goods are shipped. IFRS 15 requires that revenue be recognized 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.

Revenue from installation is recognized 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.

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 Income.

Early payment

The Company offers an early payment discount to some customers if the customer pays before due date. Early payment discount is accounted for when payment is received and recorded as a reduction to revenue in the Consolidated Statement of Income. The Company's standard payment terms are net 30 days.

Investment income

Dividend income from investments is recognized when the Company's right to receive payment has been established, it is probable that the economic benefits will flow to the Company and the amount of dividend can be measured reliably.

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of interest can be measured reliably.

Foreign currencies

The Canadian dollar is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are recognized at the average exchange rate for the month in which the transactions occurred, unless exchange rates fluctuated significantly during that period or for non-recurring transactions of material amounts, in which case the exchange rates at the dates of the transactions are used. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

For the Company's foreign operation where the Canadian dollar is its functional currency, the same policy described above is applied to the translation of its assets and liabilities for the purpose of presenting consolidated financial statements.

For the Company's foreign operation where the U.S. dollar is its functional currency, the assets and liabilities of the foreign operation for the purpose of presenting consolidated financial statements are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Exchange differences arising, if any, are recognized in other comprehensive income or loss and accumulated in equity until the disposal of the foreign operation, when all of the accumulated exchange differences in respect of that operation are reclassified to profit or loss. Revenues and expenses are translated into Canadian dollars at the average exchange rate for

the month in which the transactions occurred, unless exchange rates fluctuated significantly during that period or for non-recurring transactions of material amounts, in which case the exchange rates at the dates of the transactions are used.

Employee future benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method. Actuarial gains and losses and related taxes are recognized in other comprehensive income or loss as remeasurement of defined benefit liabilities.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan. The determination of a benefit expense requires assumptions such as the discount rate to measure obligations and the expected return on asset, the expected mortality rate and the expected rate of future compensation increases.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds and that have terms to maturity approximating the terms of the related pension liability.

Share-based compensation

For share-based compensation arrangement in which the term of the arrangement provides the employees and others providing similar services with the choice of settlement by equity instruments or in cash, the transaction is accounted for as a cash-settled share-based payment transaction.

For cash-settled share-based compensation, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. The liability is subsequently measured at fair value using mark to market accounting. Under the stock option plan, the fair value is determined by using the Black-Scholes-Merton Option Pricing Model, which factors in the Company's estimate of the number of options that will eventually vest. Under the executives' cash settled long-term incentive plan and the cash settled deferred share unit plan, the fair value is based on the share price at the end of the reporting period as well as the Company's estimate of the number of shares that will eventually vest.

At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of operations due to items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Cash and cash equivalents

Cash and cash equivalents include cash and liquid short-term investments in money market instruments with maturities of three months or less from the date of acquisition.

Short-term investments

Short-term investments include liquid investments, such as Guaranteed Investment Certificates ("GICs"), preferred shares, bonds, in money market instruments with maturities greater than three months from the date of acquisition, measured at fair market value at the report date.

Trade receivables

Trade receivables are amounts due from customers from the sale of goods or rendering of services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. The financial instrument classification for trade receivables is "amortized cost". The Company maintains an allowance for impairment of trade receivables. The expense relating to doubtful accounts is included within "selling, general and administrative expense" in the statements of operations.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

Earnings per share ("EPS")

Basic earnings per common share is calculated using the weighted daily average number of common shares outstanding. Diluted earnings per share is calculated using the treasury stock method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized when property, plant and equipment is available for use so as to write off the cost less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation ceases at the earlier of when the asset or component is derecognized, or when it is held for sale or included in a group that is classified as held for sale.

Each component of an item of property, plant and equipment with a cost which is significant in relation to the total cost of the item and has a significantly different estimated useful life than the parent asset is depreciated separately. Component accounting is used for the Company's buildings.

Depreciation is calculated over the estimated useful life of the assets, at the following rates and methods:

| ASSET CATEGORY | DEPRECIATION RATE | DEPRECIATION METHOD |
|--------------------------------|--|---------------------|
| Land | nil | nil |
| Building / Roof | 2.5% – 4% | Straight line |
| Leasehold improvements | The lower of the estimated useful life and the term of the lease | Straight line |
| Machinery and equipment | 6.6% – 20% | Straight line |
| Tools, dies and jigs | 33.33% | Straight line |
| Office furniture and equipment | 10% – 50% | Straight line |

Intangible assets

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Amortization is calculated over the estimated useful life of the assets, at the following rates and methods:

| ASSET CATEGORY | AMORTIZATION RATE | AMORTIZATION METHOD |
|-----------------------|-------------------|---------------------|
| Licensed products | 20% – 33.33% | Straight line |
| Computer software | 10% | Straight line |
| Intellectual property | 10% | Straight line |

Impairment of long-lived non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or group of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of the estimated future cash flows from the use of the asset (or cash-generating unit).

The discount rates used in the present value calculation are the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount is estimated to be less than the carrying amount of the asset (or cash-generating unit), the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. At the end of each reporting period, the Company reviews whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill (or cash-generating unit) may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset (or cash-generating unit) is estimated in order to determine whether the impairment loss should be reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no

impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Raw materials are measured at the lower of cost and net realizable value, determined on a first-in, first-out basis. Recoverable costs of raw materials that have no consumption over a period of eighteen months may be written down based on the Company's assessment of their future usage. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed. Work-in-progress and finished goods are measured at the lower of cost and net realizable value, determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost of work-in-progress and finished goods includes the cost of raw materials, and the applicable share of the cost of labour, fixed and variable production overheads.

Leases

Leases are classified as finance or operating depending on the terms and conditions of the contracts. Leases which transfer substantially all the risks and ownership are classified as finance leases. An asset held under a finance lease is initially recognized at the inception of the lease at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation. Subsequent to its initial recognition, the costs are depreciated in accordance with the accounting policy of the applicable asset. Obligations recorded under finance leases are reduced by lease payments, net of imputed interest. Interest expense is recognized in net earnings.

Leases that do not meet the criteria for finance leases are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial Instruments

On May 1, 2018, the Company adopted and applied IFRS 9, Financial Instruments ("IFRS 9"). The fiscal 2018 financial statements were prepared using IAS 39. The impact of this change has been minimal and is discussed in Note 3, "New Accounting Standards Adopted."

Financial assets

Financial assets consist of cash and cash equivalents and trade and other receivables. These financial assets are initially measured at fair value plus transaction costs. They are subsequently measured at amortized cost.

Amortized cost is determined using the effective interest rate method, factoring in acquisition costs paid to third parties, and loss allowance. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument.

The Company does not have any financial assets that are subsequently measured at fair value except for the derivative financial instrument which may be in an asset or liability position depending on the prevailing foreign exchange rates at such time.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from an asset.

Impairment of financial assets

The Company recognizes an allowance for expected credit loss on accounts receivable that are measured at amortized cost. The amount of expected credit loss ("ECL") is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company recognizes lifetime ECL for its accounts receivables. The expected credit losses on these financial assets are estimated using the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Financial liabilities

Financial liabilities are recognized initially at fair value and subsequently measured at either fair value or amortized cost. The Company's financial liabilities are classified as 'financial liabilities at amortized cost' and include any borrowings and trade and other payables and are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Classification of financial assets and liabilities

The following is the classification of the Company's financial assets and liabilities based on their characteristics and management's choices and intentions related to them:

| ASSET/ LIABILITY | CLASSIFICATION UNDER IAS 39 | NEW CLASSIFICATION UNDER IFRS 9 |
|--|--|--|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Short-term investments | Held for trading | FVTPL |
| Trade and other receivables | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Derivative assets and liabilities | FVTPL | FVTPL |

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately since the derivatives are not designated as hedging instruments for hedge accounting.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Non-performance risk, including the Company's own credit risk, is considered when determining the fair value of financial instruments.

Share capital

Common shares issued by the Company are recorded in the amount of the proceeds received, net of direct issue costs.

SIGNIFICANT ACCOUNTING JUDGMENTS, 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 critical estimates and judgments in applying accounting policies

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

Significant Critical 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 judgment and review of known exposures, credit worthiness, and collection experience) to be recognized from initial recognition of the receivables.

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

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

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

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

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

Significant Critical Estimates

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

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

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

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

3. NEW ACCOUNTING STANDARDS ADOPTED

IFRS 15

Inscape has adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) as issued by the IASB in July 2014, effective May 1, 2018.

The Company adopted the standard using the modified retrospective approach, which resulted in no adjustment to opening retained earnings. Comparative information has not been restated and continues to be reported under previous accounting standards. After completing the analysis of its customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of retained earnings, however IFRS 15 does impact the accounting for the Company’s dealer incentive programs.

The costs of incentive programs were previously presented within selling, general and administrative expenses are now presented as a reduction of revenue.

The following table shows the effect of the adoption of IFRS 15 on the Company’s consolidated statement of operations for the year ended April 30, 2019 (Reported):

| | FOR THE YEAR ENDED APRIL 30, 2019 (REPORTED) | BALANCES W/O ADOPTION OF IFRS 15 | EFFECT OF CHANGE HIGHER (LOWER) |
|-------------------|--|--|---------------------------------------|
| Sales | \$ 90,583 | \$ 91,074 | \$ (491) |
| Gross Profit | 24,382 | 24,873 | (491) |
| SG&A | 31,767 | 32,258 | (491) |
| Loss before taxes | \$ (8,726) | \$ (8,726) | \$ — |

As a result of adopting IFRS 15, the Company updated its accounting policies for recognition of revenue relating to the sale of goods and the Company’s dealer incentive programs.

IFRS 9

Inscape has adopted IFRS 9, Financial Instruments (“IFRS 9”) effective May 1, 2018 and, in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The adoption resulted in no impact to the financial statements and, no adjustment was made to equity as of May 1, 2018.

Beginning May 1, 2018, financial assets are classified at initial recognition at fair value through: i) profit or loss (“FVTPL”), ii) amortized cost, iii) debt financial instruments measured at fair value through other comprehensive income (“FVOCI”), iv) equity financial instruments designated at FVOCI, or v) financial instruments designated at FVTPL, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed. All financial assets are measured at fair value with the exception of financial assets measured at amortized cost. Financial assets are reclassified when and only when the business model under which they are managed has changed.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards, amendments, and interpretations that have been issued may have an impact to the Company, but are not effective for the fiscal year ended April 30, 2019, and accordingly, have not been applied in preparing the financial statements. The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). The standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The standard requires lessees to recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. If the implicit rate is not available then the Company's incremental borrowing rate is used. IFRS 16 supersedes IAS 17, Leases, and its related interpretations, and is effective for periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

IFRS 16 is expected to have a material impact on the Company's Consolidated Balance Sheets, with the addition of approximately \$4,400 of lease liabilities and \$4,100 of right-of-use assets. Lease-related expenses previously recorded in selling, general and administrative expenses, primarily as occupancy costs, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's Consolidated Statements of Cash Flows, but does not cause a difference in the amount of cash transferred between the parties of a lease.

IFRS 16 will be applied in fiscal 2020 using the modified retrospective approach and the Company will therefore not be restating comparative information. In addition, the Company has elected to use the following practical expedients on adoption of IFRS 16:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standard (IAS 17);
- the Company will exclude the initial direct costs in the measurement of the right-of-use asset on transition; and
- the Company will use hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

IFRS Interpretations Committee ("IFRIC") 23, Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance to be applied in the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, Income Taxes ("IAS 12"). IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23"), was issued by the IASB in June 2017 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently determining the impact on the consolidated financial statements.

5. TRADE AND OTHER RECEIVABLES

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--------------------------------------|-------------------------|-------------------------|
| Trade account receivables, gross | \$ 13,576 | \$ 12,061 |
| Provision for bad and doubtful debts | (333) | (312) |
| | 13,243 | 11,749 |
| Other receivables | 173 | 253 |
| | \$ 13,416 | \$ 12,002 |

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| An aging analysis of trade receivables past due is as follows: | | |
| 1–30 days | \$ 1,736 | \$ 3,511 |
| 31–60 days | 2,070 | 1,201 |
| 61–90 days | 1,134 | 891 |
| > 90 days | 2,020 | 890 |
| | \$ 6,960 | \$ 6,493 |

6. INVENTORIES

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|------------------|-------------------------|-------------------------|
| Raw materials | \$ 5,505 | \$ 4,595 |
| Work-in-progress | 287 | 409 |
| Finished goods | 785 | 1,737 |
| | \$ 6,577 | \$ 6,741 |

The cost of inventories recognized as cost of goods sold was \$61,230 (2018 – \$64,826). During the year, there was an inventory write-off of \$250 (2018 – write-off of \$107).

7. PROPERTY, PLANT AND EQUIPMENT

| AS AT APRIL 30, 2019 | LAND | BUILDINGS/ ROOF | LEASEHOLD IMPROVEMENTS | MACHINERY & EQUIPMENT | TOOLS, DIES & JIGS | OFFICE FURNITURE & EQUIPMENT | CAPITAL PROJECTS IN PROGRESS | TOTAL |
|---------------------------------------|------------|--------------------|---------------------------|--------------------------|-----------------------|------------------------------------|------------------------------------|---------------|
| COST: | | | | | | | | |
| Opening balance, May 1, 2018 | \$ 480 | \$ 18,908 | \$ 11,150 | \$ 39,828 | \$ 21,860 | \$ 13,026 | \$ 908 | \$ 106,160 |
| Additions | — | — | 1,337 | 52 | 50 | 561 | 148 | 2,148 |
| Disposals | — | — | (6,049) | — | (1,178) | (1,231) | 2 | (8,456) |
| Transfers | — | — | — | (1) | 216 | 19 | (896) | (662) |
| Exchange differences | 8 | 171 | 10 | 54 | 33 | 28 | — | 304 |
| Ending balance, April 30, 2019 | 488 | 19,079 | 6,448 | 39,933 | 20,981 | 12,403 | 162 | 99,494 |

| | | | | | | | | |
|---------------------------------------|---------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|------------------|
| ACCUMULATED DEPRECIATION: | | | | | | | | |
| Opening balance, May 1, 2018 | — | 11,000 | 10,320 | 36,739 | 21,742 | 12,435 | — | 92,236 |
| Depreciation charge for the year | — | 391 | 316 | 496 | 112 | 394 | — | 1,709 |
| Disposals | — | — | (6,041) | — | (1,152) | (1,233) | — | (8,426) |
| Exchange differences | — | 72 | 6 | 39 | 31 | 27 | — | 175 |
| Ending balance, April 30, 2019 | — | 11,463 | 4,601 | 37,274 | 20,733 | 11,623 | — | 85,694 |
| Net book value, April 30, 2019 | \$ 488 | \$ 7,616 | \$ 1,847 | \$ 2,659 | \$ 248 | \$ 780 | \$ 162 | \$ 13,800 |

| AS AT APRIL 30, 2018 | LAND | BUILDINGS/ ROOF | LEASEHOLD IMPROVEMENTS | MACHINERY & EQUIPMENT | TOOLS, DIES & JIGS | OFFICE FURNITURE & EQUIPMENT | CAPITAL PROJECTS IN PROGRESS | TOTAL |
|---------------------------------------|------------|--------------------|---------------------------|--------------------------|-----------------------|------------------------------------|------------------------------------|----------------|
| COST: | | | | | | | | |
| Opening balance, May 1, 2017 | \$ 491 | \$ 19,148 | \$ 11,148 | \$ 39,867 | \$ 21,881 | \$ 12,557 | \$ 502 | \$ 105,594 |
| Additions | — | — | 19 | 38 | 24 | 395 | 517 | 993 |
| Transfers | — | — | — | — | — | 111 | (111) | — |
| Exchange differences | (11) | (240) | (17) | (77) | (45) | (37) | — | (427) |
| Ending balance, April 30, 2018 | 480 | 18,908 | 11,150 | 39,828 | 21,860 | 13,026 | 908 | 106,160 |

| | | | | | | | | |
|---------------------------------------|---------------|-----------------|---------------|-----------------|---------------|---------------|---------------|------------------|
| ACCUMULATED DEPRECIATION: | | | | | | | | |
| Opening balance, May 1, 2017 | — | 10,689 | 9,947 | 36,159 | 21,666 | 12,018 | — | 90,479 |
| Depreciation charge for the year | — | 405 | 384 | 631 | 117 | 454 | — | 1,991 |
| Exchange differences | — | (94) | (11) | (51) | (41) | (37) | — | (234) |
| Ending balance, April 30, 2018 | — | 11,000 | 10,320 | 36,739 | 21,742 | 12,435 | — | 92,236 |
| Net book value, April 30, 2018 | \$ 480 | \$ 7,908 | \$ 830 | \$ 3,089 | \$ 118 | \$ 591 | \$ 908 | \$ 13,924 |

8. INTANGIBLE ASSETS

| AS AT APRIL 30, 2019 | LICENSED PRODUCTS | COMPUTER SOFTWARE | INTELLECTUAL PROPERTY | TOTAL |
|---------------------------------------|----------------------|----------------------|--------------------------|-----------------|
| COST: | | | | |
| Opening balance, May 1, 2018 | \$ 122 | \$ 10,213 | \$ 826 | \$ 11,161 |
| Additions | — | 153 | — | 153 |
| Disposals | — | (139) | (302) | (441) |
| Transfers | — | 663 | — | 663 |
| Exchange differences | — | 16 | — | 16 |
| Ending balance, April 30, 2019 | 122 | 10,906 | 524 | 11,552 |
| ACCUMULATED AMORTIZATION: | | | | |
| Opening balance, May 1, 2018 | 122 | 8,799 | 826 | 9,747 |
| Amortization | — | 462 | — | 462 |
| Disposals | — | (139) | (302) | (441) |
| Exchange differences | — | 16 | — | 16 |
| Ending balance, April 30, 2019 | 122 | 9,138 | 524 | 9,784 |
| Net book value, April 30, 2019 | \$ — | \$ 1,768 | \$ — | \$ 1,768 |

| AS AT APRIL 30, 2018 | LICENSED PRODUCTS | COMPUTER SOFTWARE | INTELLECTUAL PROPERTY | TOTAL |
|---------------------------------------|----------------------|----------------------|--------------------------|-----------------|
| COST: | | | | |
| Opening balance, May 1, 2017 | \$ 122 | \$ 10,793 | \$ 831 | \$ 11,746 |
| Additions | — | 359 | — | 359 |
| Disposals | — | (916) | — | (916) |
| Exchange differences | — | (23) | (5) | (28) |
| Ending balance, April 30, 2018 | 122 | 10,213 | 826 | 11,161 |
| ACCUMULATED AMORTIZATION: | | | | |
| Opening balance, May 1, 2017 | 112 | 8,994 | 831 | 9,937 |
| Amortization | 10 | 531 | — | 541 |
| Disposals | — | (699) | — | (699) |
| Exchange differences | — | (27) | (5) | (32) |
| Ending balance, April 30, 2018 | 122 | 8,799 | 826 | 9,747 |
| Net book value, April 30, 2018 | \$ — | \$ 1,414 | \$ — | \$ 1,414 |

9. FINANCIAL INSTRUMENTS

9.1 Capital risk management

The Company's objective when managing capital are 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 APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---------------------|-------------------------|-------------------------|
| Issued capital | \$ 52,868 | \$ 52,868 |
| Contributed surplus | 2,675 | 2,675 |
| Deficit | (37,872) | (29,126) |
| | \$ 17,671 | \$ 26,417 |

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 21-Credit Facility for a description of the Company's externally imposed covenants.

9.2 Foreign currency risk management

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

As at April 30, 2019, the Company had outstanding U.S. dollar hedge contracts with settlement dates from May 2019 to August 2020. The total notional amounts under the contracts are U.S. \$41,000 to \$51,400 (2018 – \$35,700 to \$44,675). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.24 CAD/USD to \$1.41 CAD/USD (2018 – \$1.24 CAD/USD to \$1.45 CAD/USD). These contracts had a mark-to-market unrealized loss of \$1,397 (U.S. \$1,042) as at April 30, 2019 (2018 – unrealized gain of \$349 or U.S. \$272), which was recognized on the consolidated statement of financial position as derivative liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the U.S. currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statement of operations as unrealized gain or loss on derivatives of the year. There were realized gains of \$3 on the settlement of contracts during fiscal year 2019 (2018 – \$293).

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

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---|-------------------------|-------------------------|
| Fair value of derivative assets (liabilities), beginning of year | \$ 349 | \$ (2,217) |
| CHANGES IN FAIR VALUE DURING THE YEAR: | | |
| Decrease in fair value of new contracts added | (1,240) | (198) |
| Reversal of derivative (liabilities) assets of contracts settled | (362) | 380 |
| Increase (Decrease) in fair values of outstanding contracts | (144) | 2,384 |
| Net (decrease) increase in fair value of derivative assets recognized during the year | (1,746) | 2,566 |
| Fair value of derivative (liabilities) assets, end of year | \$ (1,397) | \$ 349 |
| Current | \$ (1,052) | \$ 420 |
| Long-term | (345) | (71) |
| | \$ (1,397) | \$ 349 |

9.3 Foreign currency sensitivity analysis

Based on the existing average U.S. currency hedge contract rates and the mix of U.S. dollar denominated sales and expenses for the year ended April 30, 2019, a 1% change in the Canadian dollar against the U.S. dollar would have an impact of approximately \$271 on the Company's pre-tax earnings (2018 – \$251).

Based on the U.S. dollar denominated assets and liabilities as at April 30, 2019, a 1% change in the Canadian dollar against the U.S. dollar would have an impact of \$181 on the unrealized exchange gain or loss reported in the Consolidated Statements of Operations (2018 – \$68) and an impact of \$257 on the Consolidated Statements of Comprehensive Loss (2018 – \$222).

9.4 Credit risk management

The Company's cash and cash equivalents, short-term investments, 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 April 30, 2019, the Company's maximum direct exposure to credit risk is \$16,681 (2018 – \$ 21,543).

The Company's investment policy specifies the types of permissible investments, the credit ratings required and the maximum balances allowed. The purchase of any securities carrying a credit rating below BBB for bonds or R1- Low for commercial paper is prohibited. On a quarterly basis, management reviews the Company's investment portfolio with the Audit Committee to demonstrate compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable, assessing specific customer information and reviewing 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 April 30, 2019, the allowance for doubtful accounts, equivalent to lifetime expected credit losses was \$333 (April 30, 2018 – \$312).

The Company's allowance for doubtful accounts consist of provisions made during the year of \$95 (2018 – \$145) mainly from expected lifetime credit losses. The amount written-off of \$89 (2018 – \$437) was from two customers where the Company could not collect. Below is a breakdown the Company's allowance for doubtful account.

| MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|---------------------------------|---------------------------------|
| Balance, beginning of year | \$ 312 | \$ 624 |
| Provisions (reduced) added | 95 | 145 |
| Amount written off | (89) | (437) |
| Currency exchange | 15 | (20) |
| Balance, end of year | \$ 333 | \$ 312 |

9.5 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 has a demand credit for foreign exchange contracts of US\$10,000 with its bank and an amended demand operating facility of \$5,000. These facilities are secured by the Company's property. As at April 30, 2019 the Company did not draw down on the facilities (2018 nil). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

9.6 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 assets (liabilities) in the fair value hierarchy as at April 30, 2019.

| | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|-----------------------------------|-------------|-----------------|-------------|
| Derivative financial liabilities | \$ — | \$ 1,397 | \$ — |
| Total net financial assets | \$ — | \$ 1,397 | \$ — |

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at April 30, 2018:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|-----------------------------------|-------------|-----------------|-------------|
| Short-term investments | \$ — | \$ 3,614 | \$ — |
| Derivative financial liabilities | — | 349 | — |
| Total net financial assets | \$ — | \$ 3,963 | \$ — |

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

10. TRADE AND OTHER PAYABLES

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|------------------------|-------------------------|-------------------------|
| Trade accounts payable | \$ 5,691 | \$ 4,022 |
| Accrued liabilities | 6,634 | 8,289 |
| Sales tax payable | 290 | 317 |
| Other payables | 2,542 | 1,394 |
| | \$ 15,157 | \$ 14,022 |

11. PROVISIONS

| PROVISION DUE TO WARRANTY | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| Balance, beginning of year | \$ 919 | \$ 59 |
| Provisions made during the year | 1,195 | 931 |
| Provisions reversed and used during the year | (723) | (71) |
| Currency exchange | 49 | — |
| Balance, end of year | \$ 1,440 | \$ 919 |
| Current | 387 | 328 |
| Non-Current | 1,053 | 591 |





12. RETIREMENT BENEFIT OBLIGATION

12.1 Defined contribution plans

The Company operates a defined contribution retirement benefit plan for all qualifying employees. The assets of the plans are held separately from those of the Company in funds under the control of trustees. An actuarial valuation was prepared as at December 31, 2017.

The total expense recognized in the consolidated statements of operations of \$177 (2018 – \$206) represents contributions made to the plan by the Company. The total employer's expected contribution to the plan for the upcoming fiscal year is anticipated to be approximately \$181.

12.2 Defined benefit pension plans

The Company operated one defined benefit pension plan for qualifying employees in Canada and one defined benefit pension plan for qualifying employees in the U.S. No other post-retirement benefits are provided to these employees.

The Canadian defined benefit pension plan is contributory in nature. The U.S. defined benefit plan is non-contributory and the accrued benefits were frozen in August 2013. The Canadian plan is registered under the Ontario Pension Benefits Act, RSO 1990 and the Income Tax Act. The U.S. plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Both plans are legally separate from the Company and are monitored by a pension committee. The pension committee is responsible for policy setting. The pension plans expose the Company to actuarial risk, currency risk, credit risk, interest rate risk and market risk.

Actuarial valuations are prepared at least every three years for the Canadian plan and every year for the U.S. plan. The most recent actuarial valuations were as at December 31, 2017 for the Canadian plan and July 1, 2017 for the U.S. plan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. Actuarial gains and losses are recognized immediately in other comprehensive income as a part of remeasurement. The total employer's expected contribution to the Canadian defined benefit plan for the upcoming fiscal year is anticipated to be approximately \$413. The expected contribution to the US plan for the upcoming fiscal year are approximately \$nil.

Amounts recognized in the cost of goods sold and other comprehensive income in respect of these defined benefit plans are as follows:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| DEFINED BENEFIT PLANS | | |
| Benefits earned during the year | \$ 605 | \$ 623 |
| Participant contribution | (145) | (145) |
| Net interest cost | 121 | 169 |
| Pension expense recognized | \$ 581 | \$ 647 |
| REMEASUREMENTS OF THE NET DEFINED BENEFIT LIABILITIES | | |
| Actuarial gain due to actuarial experience | \$ 58 | \$ 737 |
| Actuarial (loss) gain due to financial assumption changes | (1,063) | 651 |
| Actuarial gain (loss) due to demographic assumption changes | 23 | (69) |
| Return on plan assets greater than discount rate | 117 | 634 |
| Remeasurements effects recognized in other comprehensive (loss) income | \$ (865) | \$ 1,953 |
| CUMULATIVE ACTUARIAL LOSSES RELATING TO NET DEFINED BENEFIT LIABILITIES | | |
| Balance, beginning of year | \$ (979) | \$ (2,932) |
| Remeasurements recognized in the year | (865) | 1,953 |
| Balance, end of year | \$ (1,844) | \$ (979) |

The significant actuarial assumptions used in measuring the accrued defined benefit pension plans obligations are as follows:

| | 2019 | 2018 |
|---|----------------|---------------|
| Discount rate at year end | 3.91% to 3.40% | 4.08% to 3.5% |
| Rate of increase in future compensation | 2.0% | 2.0% |

| MORTALITY TABLES | 2019 | 2018 |
|-------------------------|---|---|
| Canadian Plan | 2014 CPM Private Sector Table | 2014 CPM Private Sector Table |
| U.S. Plan | RP – 2014 / MP-2018 (Society of Actuaries) | RP – 2014 / MP-2017 (Society of Actuaries) |

A 1% increase in the discount rate would reduce the Canadian defined benefit obligation by approximately \$2,922 (2018 – \$2,705) and a 1% decrease in the discount rate would increase the Canadian defined benefit obligation by approximately \$3,678 (2018 – \$3,411).

A 1% increase in the discount rate would reduce the US defined benefit obligation by approximately US\$559 (2018 – US\$561) and a 1% decrease in the discount rate would increase the US defined benefit obligation by approximately US\$676 (2018 – US\$681).

The discount rates are based on a review of current market interest rates of AA corporate bond yields with a similar duration as the expected future cash outflows for the pension payments.

The amount included in the consolidated statements of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| DEFINED BENEFIT OBLIGATION, BEGINNING OF YEAR | \$ 25,539 | \$ 26,644 |
| Current service cost | 605 | 624 |
| Interest cost | 979 | 943 |
| Benefits and expenses paid | (897) | (900) |
| Actuarial loss (gain) | 982 | (1,319) |
| Foreign exchange rate changes | 301 | (453) |
| Pension expense recognized | \$ 27,509 | \$ 25,539 |

| | | |
|---|------------------|------------------|
| FAIR VALUE OF PLAN ASSETS, BEGINNING OF YEAR | \$ 22,700 | \$ 21,910 |
| Interest Income | 858 | 775 |
| Employer contributions | 428 | 471 |
| Employee contributions | 145 | 145 |
| Benefits and expenses paid | (897) | (900) |
| Return on plan assets greater than discount rate | 116 | 634 |
| Foreign exchange rate changes | 242 | (335) |
| Fair value of plan assets, end of year | \$ 23,592 | \$ 22,700 |
| Defined benefit obligation, net end of year | \$ 3,917 | \$ 2,839 |

The major categories of plan assets at the end of the year are as follows:

| | | |
|---------------------------|-------------|-------------|
| Equity securities | 58% | 63% |
| Debt securities | 31% | 25% |
| Cash and cash equivalents | 11% | 12% |
| Total | 100% | 100% |

13. INCOME TAXES

13.1 Income tax recognized in profit or loss

Consistent with 2018, the Company continues to not recognize certain deferred tax assets as a result of a lack of a history of accounting or taxable profits in 2019 or the preceding three years.

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---------------------------------|-------------------------|-------------------------|
| INCOME TAX COMPRISES OF: | | |
| Current | \$ 20 | \$ 105 |
| Deferred | — | (522) |
| | \$ 20 | \$ (417) |

The income tax provision and recovery for the years can be reconciled to the accounting loss as follows:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| Loss before income taxes | \$ (8,726) | \$ (3,409) |
| Basic statutory income tax rate | 25.26% | 25.26% |
| | (2,204) | (861) |
| RECONCILING ITEMS: | | |
| Tax effect of non-taxable (non-recoverable items) | (167) | 446 |
| True-up | 2 | (2) |
| Impact of tax rate differences | (58) | (366) |
| Impact of changes in tax law | — | 2,570 |
| Non-recognition/(recognition) of deferred tax assets | 2,427 | (2,368) |
| Other | 20 | 164 |
| Income tax (recovery) | \$ 20 | \$ (417) |

The Company's basic Canadian statutory income tax rate is the aggregate of the federal income tax rate of 15% (2018 – 15%) and the blended provincial tax rate of 10.26% (2018 – 10.26%). The basic U.S. statutory income tax rate is the aggregate of the federal income tax rate of 21% (2018 – 33%) and the average rate for various states of 4% (2018 – 4%).

13.2 Deferred tax assets and liabilities:

| | APRIL 30, 2018 | RECOGNIZED IN PROFIT OR LOSS | RECOGNIZED IN OCI | EXCHANGE DIFFERENCES AND OTHER | APRIL 30, 2019 |
|---------------------------------|-------------------|------------------------------------|----------------------|--------------------------------------|-------------------|
| Property, plant and equipment | \$ (888) | \$ 112 | \$ — | \$ — | \$ (776) |
| Derivative (liabilities) assets | (89) | 89 | — | — | — |
| Reserves | (316) | 63 | — | — | (253) |
| Loss carryforwards | 1,293 | (264) | — | — | 1,029 |
| | \$ — | \$ — | \$ — | \$ — | \$ — |

13.3 Loss carry forwards

As at April 30, 2019, the Company has unused non-capital losses of \$32,972 (2018 – \$25,585), consisting of Canadian non-capital loss of \$8,458 and US net operating losses of \$24,514 – US \$18,670 (2018 – Canadian \$10,894 US net operating losses of \$14,691 – US\$ 11,445) which may be carried forward and used to reduce future years' taxable income. The future income tax benefit of these losses of \$1,029 (April 30, 2018 – \$1,293) has been included in the deferred tax assets. The unrecognized DTA relating to unused tax loss carryforwards is \$4,958.

The US non-capital losses of \$24,514 have an indefinite life and no expiry period. The Canadian non-capital losses expire as follows:

| EXPIRY DATE | LOSS CARRY FORWARDS |
|--------------|---------------------|
| 2034 | \$ 2,013 |
| 2035 | 2,519 |
| 2036 | 1,704 |
| 2038 | 2,222 |
| Total | \$ 8,458 |

14. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations are comprised of the fair value of the Company's stock-based compensation liabilities.

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|------------------------|-------------------------|-------------------------|
| Deferred Share Units | \$ 113 | \$ 101 |
| Stock Options | 249 | 80 |
| Restricted Share Units | 161 | 86 |
| | \$ 523 | \$ 267 |

15. ISSUED CAPITAL

Authorized

7,670,881 Class A multiple voting shares, 10 votes per share

Unlimited Class B subordinating voting shares, 1 vote per share

| ISSUED AND OUTSTANDING | AS AT | AS AT |
|-----------------------------|----------------|----------------|
| | APRIL 30, 2019 | APRIL 30, 2018 |
| Class A multiple voting | 3,345,881 | 5,345,881 |
| Class B subordinated voting | 11,034,820 | 9,034,820 |
| | 14,380,701 | 14,380,701 |

On July 11, 2018 one of the Company's shareholders, Bhayana Management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis.

16. SHARE-BASED COMPENSATION

16.1 Stock option plan

The Company has allotted and reserved 1,500,000 Class B subordinated voting shares under its Stock Option Plan. In September 2017 at the Annual General Meeting of the Shareholders, an amendment to the Stock Option Plan was approved to allow any stock option which is exercised or for any reason is cancelled or terminated without having been exercised be available for grants under the Plan. At the end of the year, the reserves available for grant are 487,205 (2018 – 760,372).

Under the plan, options may be granted to purchase Class B subordinated voting shares at the market price determined at the time of grant. The plan also allows for the issuance of stock options with tandem share appreciation rights, which give the holder the right to elect to either receive cash in an amount equal to the excess of the quoted market price over the option price or to receive a Class B subordinated voting share by making a cash payment equal to the option.

During the year, stock options with share appreciation rights for 494,219 Class B subordinated voting shares to expire in 5 years were granted (2018 – 384,081).

1,012,795 stock options were outstanding as at April 30, 2019 (2018 – 739,628). Fair values of these stock options based on the Black-Scholes-Merton Option Pricing Model are accounted for as liabilities and amortized over the vesting periods. Fair values of the amortized liabilities as at April 30, 2019 totaled \$249 (April 30, 2018 – \$80). Fair values of the stock options were estimated using the Black-Scholes-Merton option pricing model.

The intrinsic value of the vested stock options outstanding as at April 30, 2019 was \$95 (April 30, 2018 – \$nil)

The assumptions used to compute the fair values and compensation expense under the model are as follows:

| INPUTS TO THE BLACK-SCHOLES-MERTON MODEL | 2019 VALUES | 2018 VALUES | BASIS |
|---|-------------------------|--------------------|--|
| Expected remaining life of the options | 0.3 to 4.7 years | 0.3 to 4.9 years | Expiry dates of the options, history of forfeiture rates and early exercise |
| Risk-free interest rates | 2.2% to 2.5% | 1.7% to 2.8% | Market yield on U.S. Treasury securities at terms commensurate with the expected remaining life of the options |
| Expected volatility | 45% to 59% | 43% to 95% | The Company's daily share price over a period of time commensurate with the expected remaining life of the options |
| Expected dividend yield | 0% | 0% | The Company's current dividend yield |

16.2 Movements in share options during the year

The following reconciles the share options outstanding at the beginning and the end of the year:

| | AS AT APRIL 30, 2019 | | AS AT APRIL 30, 2018 | |
|---------------------------------|-----------------------------|--|-----------------------------|--|
| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding, beginning of year | 739,628 | \$ 3.25 | 612,443 | \$ 3.00 |
| Granted | 494,219 | 1.75 | 384,081 | 3.11 |
| Expired | (115,000) | 3.78 | (120,307) | 2.22 |
| Forfeited | (106,052) | 2.76 | (136,589) | 2.67 |
| Outstanding, end of year | 1,012,795 | \$ 2.51 | 739,628 | \$ 3.25 |

16.3 Share options outstanding at the end of the year

The following summarizes the share options outstanding at the end of the year:

| APRIL 30, 2019 | | OPTIONS OUTSTANDING | | OPTIONS EXERCISABLE | |
|-------------------------|-------------------------------|--|---------------------------------|--------------------------------|---------------------------------|
| RANGE OF EXERCISE PRICE | NUMBER OF OUTSTANDING OPTIONS | WEIGHTED AVERAGE REMAINING LIFE IN YEARS | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT YEAR END | WEIGHTED AVERAGE EXERCISE PRICE |
| \$1.37 to \$2.55 | 581,719 | 3.34 | \$ 1.82 | 32,500 | \$ 2.10 |
| \$2.98 to \$3.41 | 298,355 | 1.56 | 3.24 | 188,517 | 3.28 |
| \$3.65 to \$4.02 | 132,721 | 2.95 | 3.83 | 10,000 | 4.02 |
| \$1.37 to \$4.02 | 1,012,795 | 2.77 | \$ 2.51 | 231,017 | \$ 3.14 |

| APRIL 30, 2018 | | OPTIONS OUTSTANDING | | OPTIONS EXERCISABLE | |
|-------------------------|-------------------------------|--|---------------------------------|--------------------------------|---------------------------------|
| RANGE OF EXERCISE PRICE | NUMBER OF OUTSTANDING OPTIONS | WEIGHTED AVERAGE REMAINING LIFE IN YEARS | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT YEAR END | WEIGHTED AVERAGE EXERCISE PRICE |
| \$2.08 to \$2.55 | 161,052 | 3.76 | \$ 2.18 | 50,000 | \$ 2.38 |
| \$2.98 to \$3.41 | 320,855 | 2.66 | 3.24 | 20,000 | 3.25 |
| \$3.65 to \$4.02 | 257,721 | 2.50 | 3.91 | 115,000 | 4.02 |
| \$2.08 to \$4.02 | 739,628 | 2.84 | \$ 3.25 | 185,000 | \$ 3.49 |

16.4 Employee stock purchase plan

The Company prior to April 26, 2019 offered an Employee Stock Purchase Plan where employees who had one year of service could choose to have up to 10% of their annual base salaries withheld to purchase Class B subordinated voting shares of the Company. The Company contributes 20% of employees' contributions to the plan. Both parties' contributions are held by the plan's trustees, who can purchase the Class B subordinated voting shares in the open market, from treasury or other plan participants' accounts. The purchase price of the shares from treasury is equal to the weighted average trading price of the Company's Class B subordinated voting shares on the TMX on the five trading days immediately prior to the subscription. Effective April 26, 2019 the employee stock purchase plan was cancelled.

16.5 Deferred share unit plan

The Company has a Deferred Share Unit Plan for the members of the Board of Directors and the executives. Under the plan, each director receiving Director's fees may elect to receive all or a percentage of the fees in the form of notional Class B subordinated voting shares of the Company called deferred share units ("DSU"). The issue price of each DSU is equal to the weighted average share price at which Class B subordinate voting shares of the Company were traded on the TMX during the last five-day period of the quarter prior to the DSU issue. Upon retirement from the Board, a director's DSU is redeemed for cash based on the market price of the shares at the time of redemption. The intrinsic value of vested deferred share units outstanding as at April 30, 2019 were \$nil (April 30, 2018 – \$nil).

As at April 30, 2019, 57,799 DSUs were outstanding with a total fair value of \$112 measured at the closing price of the shares at year end (April 30, 2018 – 55,405 units, fair value \$101).

16.6 Movements in deferred share units during the year

The following reconciles the deferred share units at the beginning and the end of the year:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---------------------------------|-------------------------|-------------------------|
| Outstanding, beginning of year | 55,405 | 150,552 |
| Granted | 2,394 | 4,853 |
| Forfeited | — | (100,000) |
| Outstanding, end of year | 57,799 | 55,405 |

16.7 Executives long-term incentive plan

The Company has a long-term incentive plan for eligible executives. Under the plan, annual grants of stock options and restricted share units (“RSU”) are issued to eligible executives based on each executive’s responsibilities and base salaries. The value of RSU redeemable at the end of a three-year vesting period is dependent upon the market price of the Class B subordinated voting shares of the Company. During the year the Company issued 101,472 RSU (2018 – 65,652). As at April 30, 2019, 184,979 RSU were outstanding (April 30, 2018 – 116,447).

The intrinsic value of the Company’s vested RSUs outstanding as at April 30, 2019 was \$13 (April 30, 2018 – \$nil).

16.8 Movements in restricted share units during the year

The following summarizes the movements in RSU during the year:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---------------------------------|---------------------------------|-------------------------|
| Outstanding, beginning of year | 116,447 | 102,580 |
| Granted | 101,472 | 65,652 |
| Forfeited | (12,226) | (38,226) |
| Maturities | (20,714) | (13,559) |
| Outstanding, end of year | 184,979 | 116,447 |

17. 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:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---|---------------------------------|-------------------------|
| Net Loss | \$ (8,746) | \$ (2,992) |
| Weighted average number of shares outstanding basic | 14,380,701 | 14,380,701 |
| Dilution impact of stock options | — | 48,683 |
| Weighted average number of shares outstanding diluted | 14,380,701 | 14,429,384 |
| Basic and diluted loss per share | \$ (0.61) | \$ (0.21) |

Stock options are anti-dilutive and are therefore, not included in the computation of basic and diluted loss per share for the years ended April 30, 2019 and April 30, 2018.

18. SEGMENTED REPORTING

Inscape's reportable segments include Furniture and Walls. In determining reportable segments the Company looks at the shared economic characteristics. The chief decision maker, the CEO monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. Additionally, the product offerings, process and production are distinct and different between the operating segments.

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 of distribution and gross margin. Walls is a separate segment 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, capital expenditures, amortization and depreciation by reportable segments:

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|---|-------------------------|-------------------------|
| SEGMENTED SALES | | |
| Furniture | \$ 63,539 | \$ 69,684 |
| Walls | 27,044 | 24,252 |
| Total | \$ 90,583 | \$ 93,936 |
| SEGMENTED LOSS | | |
| Furniture | \$ (3,442) | \$ (4,248) |
| Walls | (3,943) | (1,212) |
| | (7,385) | (5,460) |
| Unrealized (gain) loss on foreign exchange | (81) | 363 |
| Unrealized loss (gain) on derivatives | 1,746 | (2,566) |
| Gain on sale of property, plant and equipment | (31) | — |
| (Gain) loss on sale of intangible | (263) | 217 |
| Investment income | (30) | (65) |
| Loss before taxes | (8,726) | (3,409) |
| Income tax (recovery) | 20 | (417) |
| Net loss | \$ (8,746) | \$ (2,992) |
| AMORTIZATION AND DEPRECIATION | | |
| Furniture | \$ 2,011 | \$ 2,240 |
| Walls | 160 | 292 |
| Total | \$ 2,171 | \$ 2,532 |
| ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES | | |
| Furniture | \$ 2,152 | \$ 1,313 |
| Walls | 149 | 39 |
| Total | \$ 2,301 | \$ 1,352 |

Segment assets and liabilities

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--------------------------|-------------------------|-------------------------|
| ASSETS | | |
| Furniture | \$ 27,742 | \$ 31,831 |
| Walls | 11,785 | 12,751 |
| Total assets | \$ 39,527 | \$ 44,582 |
| LIABILITIES | | |
| Furniture | \$ 15,301 | \$ 13,306 |
| Walls | 7,133 | 4,949 |
| Total liabilities | \$ 22,434 | \$ 18,255 |

Inscape's revenue is based on geographical location as detailed below:

| | | |
|---------------|------------------|------------------|
| SALES FROM: | | |
| United States | \$ 84,606 | \$ 88,527 |
| Canada | 5,977 | 5,409 |
| Total | \$ 90,583 | \$ 93,936 |

Inscape's identifiable non-current assets

(i.e. property, plant and equipment and intangibles) by geographical location are detailed below:

| | | |
|---------------|------------------|------------------|
| United States | \$ 2,854 | \$ 3,966 |
| Canada | 12,714 | 11,382 |
| Total | \$ 15,568 | \$ 15,348 |

19. SUPPLEMENTAL INFORMATION
19.1 Salaries, wages and benefits

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|-------------------------------------|-------------------------|-------------------------|
| INCLUDED IN: | | |
| Cost of goods sold | \$ 16,220 | \$ 16,010 |
| Selling, general and administrative | 13,448 | 13,870 |
| | \$ 29,668 | \$ 29,880 |

19.2 Amortization and depreciation

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|-------------------------------------|-------------------------|-------------------------|
| INCLUDED IN: | | |
| Cost of goods sold | \$ 707 | \$ 1,170 |
| Selling, general and administrative | 1,464 | 1,362 |
| | \$ 2,171 | \$ 2,532 |

20. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of real properties with lease terms of between 1 and 10 years. The Company does not have an option to purchase the leased properties at the expiry of the lease periods. Operating lease expense of \$1,381 was charged to the consolidated statements of operations during the year (2018 – \$1,118).

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|--|-------------------------|-------------------------|
| LEASE TERM: | | |
| Not later than 1 year | \$ 1,491 | \$ 1,252 |
| Later than 1 year and not later than 5 years | 2,912 | 3,670 |
| Later than 5 years | 697 | 1,140 |
| | \$ 5,100 | \$ 6,062 |

21. CREDIT FACILITY

The Company has a demand credit facility for foreign exchange contracts of \$10,000 and a demand operating credit facility of \$10,000 with its bank. Although the Company had no borrowings as at April 30, 2019 the Company was not in compliance with one of its financial covenants and received a waiver from its bank on June 26, 2019 (2018 – in compliance). On June 26, 2019, the demand operating credit facility was amended from \$10,000 to the lesser of \$5,000, or the borrowing base limit. The interest rate on the demand operating credit facility is Prime Rate plus 0.25% for Canadian dollar loans, US Base Rate plus 0.25% for US dollar loans and 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's property.

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 1.4 to 1.0 at any time, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.50 to 1.0, measured quarterly.

As at April 30, 2019, the Company has not drawn on the demand operating credit and the demand credit for foreign exchange contracts (2018 – not drawn).

22. RELATED PARTY TRANSACTIONS

The following was the remuneration of directors and other members of key management personnel, including Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Brand Officer, VP Operations, VP Product Development and VP Human Resources.

| | AS AT APRIL 30, 2019 | AS AT APRIL 30, 2018 |
|----------------------------------|---------------------------------|-------------------------|
| Salaries and short-term benefits | \$ 2,084 | \$ 2,370 |
| Post-employment benefits | 52 | 32 |
| Share based compensations | 256 | (635) |
| | \$ 2,392 | \$ 1,767 |

During the year, the Company incurred expenses of \$nil (2018 – \$42) to a former related party for goods and services. The fiscal 2018 negative position of the share-based compensation has resulted from the decline in share price.

23. CONTINGENT LIABILITY

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses and a determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. There are no material contingent liabilities as at April 30, 2019 (2018 – none).

24. 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.

Corporate Information

Board of Directors

Brian A. Mirsky, Director
Bartley Bull, Chair of the Board
Tania Bortolotto, Director
Dezső J. Horváth, Director
Eric Ehgoetz, Director
David LaSalle, Director

Chief Executive Officer

Brian A. Mirsky

Listing of Capital Stock

Toronto Stock Exchange (INQ)

Financial Calendar

May 1 to April 30

Transfer Agent and Registrar

AST Trust Company (Canada)
PO Box 700, Postal Station B
Montreal, QC H3B 3K3
T 416 682 3860 or 800 387 0825
F 514 985 8843 or 888 249 6189
astfinancial.com/ca-en

2019 Annual Meeting

The annual meeting of shareholders will be held on September 12th, 2019 at 4:00 pm at Inscape's Toronto Showroom:
220 Bay Street, Suite 1300,
Toronto, ON M5J 2W4

Auditor

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West, Suite 200
Toronto, ON M5H 0A9

Investor Information

Shareholders seeking assistance or information about the Company are invited to contact Aziz Hirji, Chief Financial Officer, at:
67 Toll Road
Holland Landing, ON L9N 1H2
T 905 952 4102
info@myinscape.com
myinscape.com

Corporate Office

67 Toll Road
Holland Landing, ON L9N 1H2
T 905 836 7676
myinscape.com





inscape

67 Toll Road
Holland Landing, Ontario
L9N 1H2 Canada

T 905 836 7676
F 905 836 6000
Toll Free 1 866 467 2273

myinscape.com

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