Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

July 31, 2015 and 2014

INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited) (in thousands of Canadian dollars)

	Note	**July 31, 2015**	Apr 30, 2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 4,222**	$ 3,192
Short-term investments		**6,951**	9,832
Trade and other receivables	9.4	**13,552**	11,585
Inventories	7	**4,637**	4,157
Income taxes receivable		**89**	62
Prepaid expenses		**1,343**	677
		30,794	29,505
NON-CURRENT ASSETS			
Property, plant and equipment		**18,491**	18,243
Intangible assets		**122**	139
Deferred tax assets		**539**	695
		$ 49,946	$ 48,582
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 13,137**	$ 9,546
Provisions	8	**183**	232
Derivative liabilities	9.2	**6,011**	3,822
		19,331	13,600
DEFERRED TAX LIABILITIES		**1,048**	1,177
DERIVATIVE LIABILITIES	9.2	**319**	123
OTHER LONG-TERM OBLIGATIONS	10	**1,113**	976
RETIREMENT BENEFIT OBLIGATION		**3,043**	2,880
		24,854	18,756
CAPITAL AND RESERVES			
Issued capital		**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive loss		**(700)**	(1,009)
Deficit		**(29,751)**	(24,708)
		25,092	29,826
		$ 49,946	$ 48,582

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

Note - These condensed interim consolidated financial statements have not been reviewed by an auditor

Approved by the Board of Directors,

(signed)
Chairman
Madan Bhayana

(signed)
Director
Bartley Bull

INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands of Canadian dollars, except per share amounts)

	Note	Three Months Ended July 31, 2015		Three Months Ended July 31, 2014	
SALES	5	$	15,274	$	19,040
COST OF GOODS SOLD			12,078		13,943
GROSS PROFIT			3,196		5,097
EXPENSES					
Selling, general and administrative			6,288		5,067
Unrealized gain on foreign exchange			(384)		(74)
Increase (decrease) in fair value of derivative liabilities	9		2,385		(1,014)
Investment income			(50)		(89)
			8,239		3,890
(LOSS) INCOME BEFORE TAXES			(5,043)		1,207
INCOME TAXES (RECOVERY)			-		428
NET (LOSS) INCOME		$	(5,043)	$	779
BASIC AND DILUTED EARNINGS PER SHARE	6	$	(0.35)	$	0.05

SUPPLEMENTAL INFORMATION

	2015	2014
Salaries,wages and benefits included in cost of goods sold	$ 3,861	$ 3,960
Salaries,wages and benefits included in selling, general and administrative	3,137	2,918
Total salaries, wages and benefits	$ 6,998	$ 6,878
Amortization included in cost of goods sold	$ 450	$ 574
Amortization included in selling, general and administrative	199	177
Total amortization	$ 649	$ 751

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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited) (in thousands of Canadian dollars)

			Accumulated Other Comprehensive Income (Loss) ("AOCI")			
Period Ended July 31, 2015	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2015	**$ 52,868**	**$ 2,675**	**$ (1,857)**	**$ 848**	**$ (24,708)**	**$ 29,826**
Net Loss	**-**	**-**	**-**	**-**	**(5,043)**	**(5,043)**
Other Comprehensive Income (Loss)	**-**	**-**	**-**	**309**	**-**	**309**
Total Comprehensive Loss	**-**	**-**	**-**	**309**	**(5,043)**	**(4,734)**
BALANCE - July 31, 2015	**$ 52,868**	**$ 2,675**	**$ (1,857)**	**$ 1,157**	**$ (29,751)**	**$ 25,092**

			Accumulated Other Comprehensive Loss ("AOCI")			
Period Ended July 31, 2014	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2014	$ 52,853	$ 2,675	$ (473)	$ 171	$ (11,632)	$ 43,594
Net Income	-	-	-	-	779	779
Other Comprehensive Loss	-	-	-	(40)	-	(40)
Total Comprehensive Income (Loss)	-	-	-	(40)	779	739
BALANCE - July 31, 2014	$ 52,853	$ 2,675	$ (473)	$ 131	$ (10,853)	$ 44,333

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INSCAPE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	Note	Three Months Ended July 31, 2015	2014
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES			
Net (loss) income		**$ (5,043)**	$ 779
Items not affecting cash:			
Amortization		**649**	751
Pension expense		**170**	130
Unrealized loss on short-term investments held for trading		**80**	13
Increase (decrease) in fair value of derivative liabilities	9.2	**2,385**	(1,014)
Deferred income taxes		**-**	428
Share based compensation		**137**	133
Unrealized gain on foreign exchange		**(384)**	(74)
Employer's contribution to pension funds		**(113)**	(47)
Cash (used for) generated from operating activities before non-cash working capital		**(2,119)**	1,099
Movements in non-cash working capital			
Trade and other receivables		**(1,193)**	(1,558)
Inventories		**(387)**	(400)
Prepaid expenses		**(633)**	(76)
Accounts payable and accrued liabilities		**3,110**	(1,242)
Provisions		**(65)**	39
Income tax receivables and payables		**(21)**	(3)
Cash used for operating activities		**(1,308)**	(2,141)
INVESTING ACTIVITIES			
Short-term investments held for trading		**2,801**	752
Additions to property, plant and equipment & intangible assets		**(639)**	(282)
Cash generated from investing activities		**2,162**	470
Unrealized foreign exchange gain on cash and cash equivalents		**176**	58
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,030**	(1,613)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**3,192**	6,029
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 4,222**	$ 4,416
CASH AND CASH EQUIVALENTS CONSIST OF:			
Cash		**$ 4,166**	$ 1,108
Cash equivalents		**56**	3,308
		$ 4,222	$ 4,416

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1. General information

Inscape Corporation (the "Company") is a limited company incorporated in Ontario, Canada, with Class B common shares listed on the Toronto Stock Exchange (TMX). The Company's registered office is 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 customers through a network of authorized dealers.

2. Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Financial Accounting Standard ("IAS") 34 - Interim Financial Reporting.

These financial statements follow the same accounting policies as were used for the consolidated financial statements for the year ended April 30, 2015.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 10, 2015.

3. Critical accounting judgments and key sources of estimation uncertainty

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.

3.1 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.

Critical judgments:

Allowance for doubtful accounts is based on management judgment and review of any known exposures, customer creditworthiness, and collection experience.

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

Identification of cash generating units for the purposes of performing impairment test of asset 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 of the functional currency of the Company's various reporting entities is based on management's judgment of the currency environment of each entity.

Critical estimates:

Estimated useful lives and residual values of intangible asset, 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 the 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 share units is based on the management's best estimates on the Company's financial performance during the vesting period of the performance share units.

Cash flow projections of the Company's cash generating units for the purposes of performing an impairment test of assets are based on the Company's best estimate of the range of business and economic conditions.

The Company computes an income tax provision in each of the jurisdiction in which it operates. Actual amounts of income tax expense are finalized upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax returns; net earnings would be affected in a subsequent period.

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. It is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provision in the period in which such determination is made.

4. Future Accounting Policy Changes

IFRS 9 Financial Instruments:

In July 2014, the IASB issued IFRS 9 (2014) – Financial Instruments ("IFRS 9"). IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets and limited changes to the classification and measurement requirements for financial assets. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income (loss), unless this would create an accounting mismatch. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39 and introduces a new expected loss impairment model. IFRS 9 also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This amendment completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Unaudited (in thousands except share and per share amounts)

IFRS 15 Revenue from Contracts with Customers:

In May 2014, the IASB released IFRS 15 Revenue from Contracts with Customers, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and a number of revenue-related interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Service). IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

5. Segment information

The Company operates in two principal geographical areas – U.S. and Canada.

The Company's revenue from continuing operations from external customers by geographical location are detailed below.

	Three Months Ended July 31,	
	2015	2014
Sales from		
United States	**$ 14,154**	17,176
Canada	**1,120**	1,864
	$ 15,274	$ 19,040

The following is an analysis of the Company's revenue and results from continuing operations by reportable segments, which are identified on the basis of internal reports about components of the Company that are regularly reviewed by the management in order to allocate resources to the segments and to assess their performance.

Unaudited (in thousands except share and per share amounts)

		Three Months Ended July 31, 2015		2014
Segment Sales				
Furniture	**$**	**10,746**	$	13,693
Movable walls and rollform		**4,528**		5,347
	$	**15,274**	$	19,040
Segment Operating (Losses) Income				
Furniture	**$**	**(2,020)**	$	58
Movable walls and rollform		**(1,072)**		(28)
		(3,092)		30
Unrealized exchange gain		**(384)**		(74)
Increase (decrease) in fair value of derivative liabilities		**2,385**		(1,014)
Investment income		**(50)**		(89)
(Loss) Income before taxes		**(5,043)**		1,207
Income taxes provision		**-**		428
Net (loss) income	**$**	**(5,043)**	$	779

Segment profit or loss represents the profit earned or loss incurred by each segment without allocation of unrealized foreign exchange and derivative gains and losses, investment income and income tax expense. This is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

6. Earnings per share

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

Numerator		Three Months Ended July 31, 2015		2014
Net (loss) income for the quarter for basic and diluted earnings per share	**$**	**(5,043)**	$	779
Denominator				
Weighted average number of shares outstanding for basic earnings per share		**14,380,701**		14,373,201
Dilution impact of stock options		**370,022**		35,421
Weighted average number of shares outstanding for diluted earnings per share		**14,750,723**		14,408,622

For the three months ended July 31, 2015, diluted loss per common share has not been disclosed as the effect of the conversion would be anti-dilutive.

For the three months ended July 31, 2014, 553,850 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted loss per share.

Unaudited (in thousands except share and per share amounts)

7. Inventories

		July 31, 2015		April 30, 2015
Raw materials	$	3,275	$	3,092
Work-in-progress		350		285
Finished goods		1,012		780
	$	4,637	$	4,157

The cost of inventories recognized as cost of goods sold was $11,133 (July 31, 2014 - $13,028) for the three-month period.

There was an inventory write-down of $48 (July 31, 2014 - $17) during the three-month period.

8. Provisions

		July 31, 2015		April 30, 2015
Provision, beginning of the period	$	232	$	230
Additional provisions recognized		-		216
Reductions arising from payments		(65)		(139)
Reversal of unused amounts		-		(96)
Currency exchange		16		21
Provision, end of the period	$	183	$	232

9. Financial instruments

9.1 Capital risk management

The Company's objectives 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 income (loss) as summarized in the following table:

		July 31, 2015		April 30, 2015
Issued capital	$	52,868	$	52,868
Contributed surplus		2,675		2,675
Deficit		(29,751)		(24,708)
	$	25,792	$	30,835

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.

Unaudited (in thousands except share and per share amounts)

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 of office furniture 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 July 31, 2015, the Company had outstanding U.S. dollar hedge contracts with settlement dates from August 2015 to June 2017. The total nominal amounts under the contracts are U.S $32,000 to $40,250 (July 31, 2014 - $47,000 to $56,500). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.04 CAD/USD to $1.27 CAD/USD (July 31, 2014 - $1.04 CAD/USD to $1.095 CAD/USD). These contracts had a mark-to-market loss of $6,330 (U.S. $4,839), 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 increase or decrease in fair value of derivative assets or liabilities of the period.

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

	Three Months Ended	
	July 31, 2015	July 31, 2014
Fair value of derivative liabilities, beginning of period	**$ (3,945)**	$ (2,387)
Changes in fair value during the year:		
Decrease in fair value of new contracts added	**(234)**	(99)
Reversal of derivative liabilities of contracts settled	**1,428**	665
(Decrease) Increase in fair values of outstanding contracts	**(3,579)**	448
Net (increase) decrease in fair value of derivative liabilities recognized during this period	**(2,385)**	1,014
Fair value of derivative liabilities, end of period	**$ (6,330)**	$ (1,373)
Current	**$ (6,011)**	$ (1,337)
Long-term	**(319)**	(36)
	$ (6,330)	$ (1,373)

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 three-month period ended July 31, 2015, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of approximately $460 on the Company's pre-tax earnings (July 31, 2014 – $22).

9.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the three-month period ended July 31, 2015, each 100 basis point variation in the market interest rate is estimated to result in a change of $21 in the Company's investment income (July 31, 2014 - $27).

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. The Company's investment policy specifies the types of permissible investments, the minimum 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. Management reports to the Board of Directors quarterly the Company's investment portfolios to demonstrate their compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing of credit limits, monitoring aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at July 31, 2015, the allowance for doubtful accounts was $551 (April 30, 2015 - $480).

9.5 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company is debt-free and has access to financing facilities which were unused at the end of the reporting period (July 2014: unused). 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).

Unaudited (in thousands except share and per share amounts)

July 31, 2015		**Level 1**		**Level 2**		**Level 3**
Short-term investments	**$**	**6,951**	**$**	**-**	**$**	**-**
Derivative liabilities		**-**		**(6,330)**		**-**
	$	**6,951**	**$**	**(6,330)**	**$**	**-**

April 30, 2015		Level 1		Level 2		Level 3
Short-term investments	$	9,832	$	-	$	-
Derivative liabilities		-		(3,945)		-
	$	9,832	$	(3,945)	$	-

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

10. Other long-term obligations

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

		July 31, 2015		April 30, 2015
Deferred Share Units	**$**	**244**	$	208
Stock Options		**825**		736
Restricted Share Units		**44**		32
	$	**1,113**	$	976

11. Related party transactions

Compensation of key management personnel

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

	Three Months Ended July 31,			
		2015		2014 (resteated)
Salaries and short-term benefits	**$**	**443**	$	478
Post-employment benefits		**5**		3
Share-based compensation		**135**		124
	$	**583**	$	605

During the year, the Company incurred expenses to a related party for goods and services associated with the Company's strategic initiatives. The entity is deemed a related party because the Chief Executive Officer is a shareholder of that entity. The relationship provides the Company immediate resources to implement new initiatives. The expense incurred was $53 for the three-month period ended July 31, 2015 (July 31, 2014 – nil).

13. 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 July 31, 2015 (July 31, 2014 – nil).