Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

July 31, 2014 and 2013

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

	Note	**July 31, 2014**	April 30, 2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 4,416**	$ 6,029
Short-term investments		**12,104**	12,869
Trade and other receivables	9.4	**11,206**	9,643
Inventories	7	**4,348**	3,944
Income taxes receivable		**60**	56
Prepaid expenses		**862**	787
		32,996	33,328
NON-CURRENT ASSETS			
Property, plant and equipment		**20,033**	20,498
Intangible assets		**202**	227
Deferred tax assets		**3,863**	4,302
		$ 57,094	$ 58,355
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 7,932**	$ 9,175
Provisions	8	**269**	230
Derivative liabilities	9.2	**1,337**	2,321
		9,538	11,726
DEFERRED TAX LIABILITIES		**1,021**	1,014
DERIVATIVE LIABILITIES	9.2	**36**	66
OTHER LONG-TERM OBLIGATIONS	10	**381**	248
RETIREMENT BENEFIT OBLIGATION		**1,785**	1,707
		12,761	14,761
CAPITAL AND RESERVES			
Issued capital		**52,853**	52,853
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive loss		**(342)**	(302)
Deficit		**(10,853)**	(11,632)
		44,333	43,594
		$ 57,094	$ 58,355

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

(signed)
Chairman
Madan Bhayana

(signed)
Director
Bartley Bull

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

	Note	Three Months Ended July 31, 2014	2013
SALES	5	**$ 19,040**	$ 17,288
COST OF GOODS SOLD		**13,943**	13,076
GROSS PROFIT		**5,097**	4,212
EXPENSES			
Selling, general and administrative		**5,067**	5,427
Unrealized (gain) loss on foreign exchange		**(74)**	11
(Increase) Decrease in fair value of derivatives	9.2	**(1,014)**	750
Investment income		**(89)**	(99)
		3,890	6,089
INCOME (LOSS) BEFORE TAXES		**1,207**	(1,877)
INCOME TAXES		**428**	(494)
NET INCOME (LOSS)		**$ 779**	$ (1,383)
BASIC AND DILUTED EARNINGS PER SHARE	6	**$ 0.05**	$ (0.10)

SUPPLEMENTAL INFORMATION		
Salaries,wages and benefits included in cost of goods sold	**$ 3,960**	$ 3,939
Salaries,wages and benefits included in selling, general and administrative	**2,918**	2,925
Total salaries, wages and benefits	**$ 6,878**	$ 6,864
Amortization included in cost of goods sold	**$ 574**	$ 721
Amortization included in selling, general and administrative	**177**	162
Total amortization	**$ 751**	$ 883

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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)(in thousands of Canadian dollars)

		Three Months Ended July 31, 2014	2013
NET INCOME (LOSS)		**$ 779**	$ (1,383)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to earnings			
Exchange (loss) gain on translating foreign operations		**(40)**	230
OTHER COMPREHENSIVE LOSS , NET OF TAXES		**(40)**	230
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAXES		**$ 739**	$ (1,153)

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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)(in thousands of Canadian dollars)
Period Ended July 31, 2014

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Translation gain (loss)	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	**-**	**-**	**-**	**(40)**	**779**	**739**
BALANCE - July 31, 2014	**$ 52,853**	**$ 2,675**	**$ (473)**	**$ 131**	**$ (10,853)**	**$ 44,333**

Period Ended July 31, 2013

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Translation gain (loss)	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2013	$ 52,853	$ 2,675	$ (2,594)	$ (529)	$ (4,540)	$ 47,865
Net Loss	-	-	-	-	(1,383)	(1,383)
Other Comprehensive Income	-	-	-	230	-	230
Total Comprehensive Loss	-	-	-	230	(1,383)	(1,153)
BALANCE -July 31, 2013	$ 52,853	$ 2,675	$ (2,594)	$ (299)	$ (5,923)	$ 46,712

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

	Note	**Three Months Ended July 31, 2014**	Three Months Ended July 31, 2013
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES			
Net income (loss)		**$ 779**	$ (1,383)
Items not affecting cash:			
Amortization		**751**	883
Pension expense		**130**	202
Unrealized loss on short-term investments held for trading		**13**	83
(Increase) Decrease in fair value of derivatives	9.2	**(1,014)**	750
Deferred income taxes		**428**	(494)
Share based compensation		**133**	(11)
Unrealized (gain) loss on foreign exchange		**(74)**	11
Employer's contribution to pension funds		**(47)**	(265)
Cash generated from (used for) operating activities before non-cash working capital		**1,099**	(224)
Movements in non-cash working capital			
Trade and other receivables		**(1,558)**	111
Inventories		**(400)**	(116)
Prepaid expenses		**(76)**	(228)
Accounts payable and accrued liabilities		**(1,242)**	(1,797)
Provisions		**39**	(49)
Income tax assets and liabilities		**(3)**	(4)
Cash used for operating activities		**(2,141)**	(2,307)
INVESTING ACTIVITIES			
Short-term investments held for trading		**752**	2,980
Additions to property, plant and equipment & intangible assets		**(282)**	(435)
Cash used for investing activities		**470**	2,545
Unrealized foreign exchange gain on cash and cash equivalents		**58**	(51)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,613)**	187
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**6,029**	8,193
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 4,416**	$ 8,380
CASH AND CASH EQUIVALENTS CONSIST OF:			
Cash		**$ 1,108**	$ 2,483
Cash equivalents		**3,308**	5,897
		$ 4,416	$ 8,380

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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, 2014.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 11, 2014.

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.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

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

The following new accounting standards issued by the International Accounting Standards Board (IASB) are effective for the Company's reporting periods beginning on or after January 1, 2014 except for IFRS 9, which is effective for reporting periods beginning or after January 1, 2015. The Company is assessing the potential impacts of the adoption of these new standards on its consolidated financial statements.

Unaudited (in thousands except share and per share amounts)

4. Future Accounting Policy Changes (continued)

(a) IFRS 9 – Financial Instruments replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will provide relevant information to users of financial statements on the amounts, timing and uncertainty of an entity's future cash flows.

(b) IAS 1 – Presentation of Items of Other Comprehensive Income – This standard was amended to require entities to group items presented in "Other Comprehensive Income" in two categories based on whether those items will or will not be classified to profit or loss in the future.

(c) IFRS 13 – Fair Value Measurements – This standard provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

(d) IFRS 10 - Consolidated Financial Statements – This new standard provides a control-based requirement for consolidation across all types of interests in other entities.

(e) IFRS 12 – Disclosure of Interests in Other Entities – This standard supplements existing disclosure requirements about interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

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,	
	2014	2013
Sales from		
United States	**$ 17,176**	$ 14,541
Canada	**1,864**	2,445
Other	**-**	302
	$ 19,040	$ 17,288

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.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. 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.

Unaudited (in thousands except share and per share amounts)

5. Segment information (continued)

	Three Months Ended July 31, 2014	2013
Segment Sales		
Furniture	**$ 13,693**	$ 11,442
Movable walls and rollform	**5,347**	5,846
	$ 19,040	$ 17,288
Segment Operating Income (Losses)		
Furniture	**$ 58**	$ (1,585)
Movable walls and rollform	**(28)**	370
	30	(1,215)
Unrealized exchange (gain) loss	**(74)**	11
(Increase) Decrease in fair value of derivatives	**(1,014)**	750
Investment income	**(89)**	(99)
Income (Loss) before taxes	**1,207**	(1,877)
Provision for income taxes	**428**	(494)
Net income (loss)	**$ 779**	$ (1,383)

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, 2014	2013
Net income (loss) for the quarter for basic and diluted earnings per share	**$ 779**	$ (1,383)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,373,201**	14,373,201
Dilution impact of stock options	**35,421**	25,501
Weighted average number of shares outstanding for diluted earnings per share	**14,408,622**	14,398,702

553,850 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share for the three-month period ended July 31, 2014 (2014-465,365).

Unaudited (in thousands except share and per share amounts)

7. Inventories

		July 31, 2014		April 30, 2014
Raw materials	$	**3,108**	$	2,622
Work-in-progress		**381**		376
Finished goods		**859**		946
	$	**4,348**	$	3,944

The cost of inventories recognized as cost of goods sold during the period was $13,028 for the three-month period ended July 31, 2014 (July, 2013 - $11,827).

There was an inventory write-down of $17 write-down during the period (2013 - $9).

8. Provisions

Provisions are made for warranty claims that represent the present value of the management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties. The estimate has been made on the basis of potential warranty claims known to the management.

Provision, beginning of period	$	230
Additional provisions recognized		86
Reductions arising from payments		(15)
Reversal of unused amounts		(30)
Currency exchange loss		(2)
Provision, end of period	$	269

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.

Unaudited (in thousands except share and per share amounts)

9. Financial instruments (continued)

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, 2014		April 30, 2014
Issued capital	$	**52,853**	$	52,853
Contributed surplus		**2,675**		2,675
Deficit		**(10,853)**		(11,632)
	$	**44,675**	$	43,896

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 adjust the amount of dividends paid to shareholders, return capital to shareholders, or draw on its line of credit.

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, 2014, the Company has 8 U.S. dollar forward contracts with settlement dates ranging from August 2014 to October 2015. Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. $47 million to $56.5 million at rates ranging from $1.04 CAD/USD to $1.095 CAD/USD. The weighted average exchange rate is $1.064 CAD/USD. These contracts had a mark-to-market loss of U.S. $1.3 million, which was recognized on the consolidated statements of financial position as derivative liabilities. Changes in the net gain or loss from the prior reporting periods due to addition of forward contracts, movements in the U.S. currency exchange rate and reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statements of operations as increase or decrease in fair value of derivative assets or liabilities of the period. The following reconciles the changes in the derivatives at the beginning and the end of the reporting periods:

	Three Months Ended July 31,			
		2014		2013
Fair value of derivative (liabilites) assets, beginning of period	$	**(2,387)**	$	438
Changes in fair value during the period:				
(Decrease) Increase in fair value of new contracts added		**(99)**		55
Reversal of derivative liabilities (assets) of contracts settled		**665**		(301)
Increase (Decrease) in fair values of outstanding contracts		**448**		(504)
Net decrease (increase) in fair value of derivative liabilities recognized during the period		**1,014**		(750)
Fair value of derivative liabilities, end of period	$	**(1,373)**	$	(312)

9. Financial instruments (continued)

Foreign currency sensitivity analysis

Based on the existing average forward contract exchange rate and the mix of U.S. dollar denominated sales and expenses for the three-month period ended July 31, 2014, a 5% change in the Canadian dollar against the U.S. dollar would have approximately $22 impact on the Company's pre-tax earnings (July, 2013 – approximately $23).

9.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that investment 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, 2014, each 100 basis point variation in the market interest rate is estimated to result in a change of $27 in the Company's investment income (July, 2013 - $23).

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, 2014, the allowance for doubtful accounts was $468 (April 30, 2014 - $431).

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's liquidity risk is very limited as its cash, cash equivalents and short-term investments are consistently in excess of the financial liabilities.

The Company is debt-free and has access to financing facilities, which were unused at the end of the reporting period (July 2013: unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Unaudited (in thousands except share and per share amounts)

9. Financial instruments (continued)

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).

July 31, 2014		**Level 1**		**Level 2**		**Level 3**
Short-term investments	**$**	**12,104**	**$**	**-**	**$**	**-**
Derivative liabilities		**-**		**(1,373)**		**-**
	$	**12,104**	**$**	**(1,373)**	**$**	**-**

April 30, 2013		Level 1		Level 2		Level 3
Short-term investments	$	12,869	$	-	$	-
Derivative assets		-		(2,387)		-
	$	12,869	$	(2,387)	$	-

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, 2014		April 30, 2014
Deferred Share Units	**$**	**91**	$	61
Stock Options		**288**		187
Restricted Share Units		**2**		-
	$	**381**	$	248

Unaudited (in thousands except share and per share amounts)

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, VP Manufacturing, VP Product Development and VP Human Resources.

	Three Months Ended July 31,			
		2014		2013
Salaries and short-term benefits	**$**	**416**	$	406
Post-employment benefits		**3**		4
Share-based compensation		**124**		37
	$	**543**	$	447

12. 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, 2014 (July, 2013 – nil).