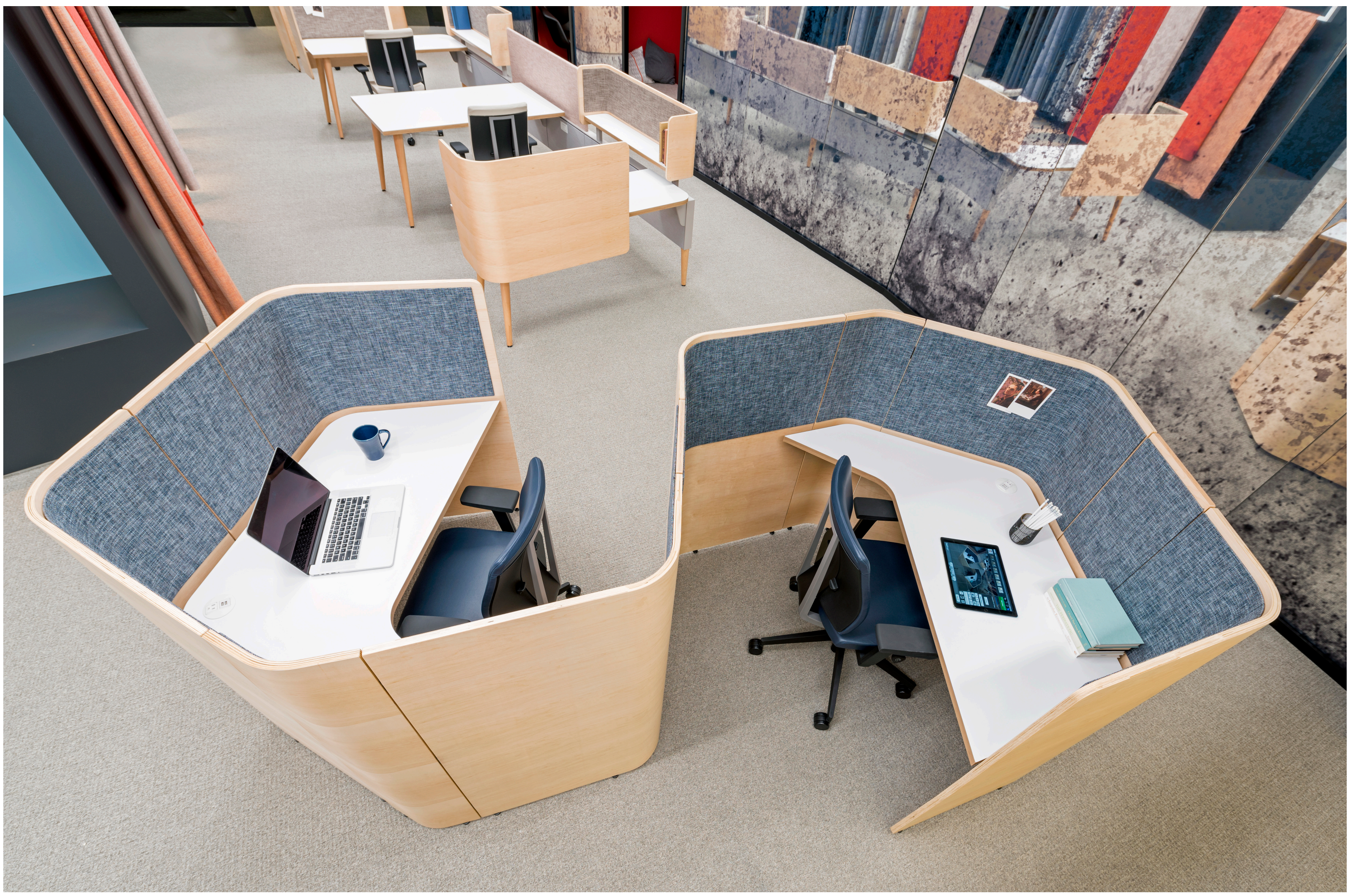
Inscape Corporation Fiscal 2018 First Quarter Report

For the period ended July 31, 2017



inscape

contents

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

	Note	July 31, 2017	April 30, 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 4,130**	$ 7,236
Short-term investments		**5,636**	4,278
Trade and other receivables	8.4	**15,469**	11,965
Inventories	7	**6,004**	5,092
Income taxes receivable		**139**	141
Prepaid expenses		**1,226**	1,234
Derivative assets	8.2	**1,226**	-
		33,830	29,946
NON-CURRENT ASSETS			
Property, plant and equipment		**14,626**	15,115
Intangible assets		**1,770**	1,809
Derivative assets	8.2	**660**	-
Deferred tax assets		**695**	695
		$ 51,581	$ 47,565
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 14,376**	$ 10,139
Derivative liabilities	8.2	**-**	1,381
		14,376	11,520
DEFERRED TAX LIABILITIES		**1,193**	1,216
DERIVATIVE LIABILITIES	8.2	**-**	836
OTHER LONG-TERM OBLIGATIONS	9	**1,188**	1,455
RETIREMENT BENEFIT OBLIGATION		**4,595**	4,734
		21,352	19,761
CAPITAL AND RESERVES			
Issued capital		**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive loss		**(2,238)**	(1,605)
Deficit		**(23,076)**	(26,134)
		30,229	27,804
		$ 51,581	$ 47,565

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

Approved by the Board of Directors,

(signed)	(signed)
Chairman	Director
Madan Bhayana	Bartley Bull

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

		Three Months Ended July 31,	
	Note	**2017**	2016
SALES	5	**$ 23,307**	$ 23,569
COST OF GOODS SOLD		**16,114**	16,717
GROSS PROFIT		**7,193**	6,852
EXPENSES			
Selling, general and administrative		**7,804**	6,925
Unrealized loss (gain) on foreign exchange		**457**	(166)
Unrealized (gain) loss on derivatives	8	**(4,103)**	1,641
Investment income		**(23)**	(22)
		4,135	8,378
INCOME (LOSS) BEFORE TAXES		**3,058**	(1,526)
INCOME TAXES	11	**-**	-
NET INCOME (LOSS)		**$ 3,058**	$ (1,526)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	6	**$ 0.21**	$ (0.11)

SUPPLEMENTAL INFORMATION		
Salaries, wages and benefits included in cost of goods sold	**$ 4,024**	$ 4,126
Salaries, wages and benefits included in selling, general and administrative	**3,210**	3,472
Total salaries, wages and benefits	**$ 7,234**	$ 7,598
Amortization included in cost of goods sold	**$ 292**	$ 385
Amortization included in selling, general and administrative	**309**	248
Total amortization	**$ 601**	$ 633

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

INSCAPE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited) (in thousands of Canadian dollars)

	Three Months Ended July 31,	
	2017	2016
NET INCOME (LOSS)	**$ 3,058**	$ (1,526)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified to earnings		
Exchange (loss) gain on translating foreign operations	**(633)**	172
OTHER COMPREHENSIVE (LOSS) INCOME	**(633)**	172
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ 2,425**	$ (1,354)

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

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, 2017	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain (loss)**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2017	**$ 52,868**	**$ 2,675**	**$ (2,932)**	**$ 1,327**	**$ (26,134)**	**$ 27,804**
Net Income	**-**	**-**	**-**	**-**	**3,058**	**3,058**
Other Comprehensive Loss	**-**	**-**	**-**	**(633)**	**-**	**(633)**
Total Comprehensive Income	**-**	**-**	**-**	**(633)**	**3,058**	**2,425**
BALANCE - July 31, 2017	**$ 52,868**	**$ 2,675**	**$ (2,932)**	**$ 694**	**$ (23,076)**	**$ 30,229**

			Accumulated Other Comprehensive Income (Loss) ("AOCI")			
Year Ended July 31, 2016	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2016	$ 52,868	$ 2,675	$ (3,922)	$ 868	$ (25,962)	$ 26,527
Net Loss	-	-	-	-	(1,526)	(1,526)
Other Comprehensive Income	-	-	-	172	-	172
Total Comprehensive Loss	-	-	-	172	(1,526)	(1,354)
BALANCE - July 31, 2016	$ 52,868	$ 2,675	$ (3,922)	$ 1,040	$ (27,488)	$ 25,173

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

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

	Note	Three Months Ended July 31, 2017	2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES			
Net income (loss)		**$ 3,058**	$ (1,526)
Items not affecting cash:			
Amortization and depreciation		**601**	633
Pension expense		**140**	169
Unrealized gain on short-term investments held for trading		**-**	(31)
Unrealized (gain) loss on derivatives	8.2	**(4,103)**	1,641
Share based compensation		**(267)**	24
Unrealized loss (gain) on foreign exchange		**457**	(166)
Employer's contribution to pension funds		**(101)**	(124)
Cash (used for) generated from operating activities before non-cash working capital		**(215)**	620
Movements in non-cash working capital			
Trade and other receivables		**(4,369)**	(1,446)
Inventories		**(1,063)**	(389)
Prepaid expenses		**(22)**	(423)
Accounts payable and accrued liabilities		**4,746**	1,944
Income tax receivables and payables		**(8)**	(12)
Cash (used for) generated from operating activities		**(931)**	294
INVESTING ACTIVITIES			
Short-term investments held for trading		**(1,358)**	(12)
Additions to property, plant and equipment & intangible assets		**(347)**	(846)
Cash (used for) generated from investing activities		**(1,705)**	(858)
Unrealized foreign exchange (loss) gain on cash and cash equivalents		**(470)**	149
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3,106)**	(415)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**7,236**	5,989
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 4,130**	$ 5,574
CASH AND CASH EQUIVALENTS CONSIST OF:			
Cash		**$ 2,800**	$ 4,746
Cash equivalents		**1,330**	828
		$ 4,130	$ 5,574

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

1. General information

Inscape Corporation (the "Company") is a limited company incorporated in Ontario, Canada, with Class B common shares listed on the Toronto Stock Exchange (TMX). The Company's registered office is 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, 2017.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 7, 2017.

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's 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 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 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 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 share units is based on 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 jurisdictions 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 standards, amendments, and interpretations that have been issued are expected to impact the Company, but are not effective for the fiscal year ending April 30, 2018, and accordingly, have not been applied in preparing the interim financial statements. The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

IFRS 2 Share-based Payments:
In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature, and a modification to the terms and conditions that changes the classification of the transactions. These amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 9 Financial Instruments:
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which united the various phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement as follows:

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements for expected credit losses and credit risk.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The standard also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The standard is effective for reporting periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 15 Revenue from Contracts with Customers:
In May 2014, the IASB issued 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 outlines a single comprehensive model on the core principle 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 contains enhanced disclosure requirements on the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and though permitted, has not been adopted early.

Unaudited (in thousands except share and per share amounts)

In April 2016, the IASB published clarifications to IFRS 15 which address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 16 Leases:
In January 2016, the IASB issued IFRS 16 Leases, specifying the recognition, measurement, presentation and disclosure requirements of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and though permitted, has not been adopted early.

5. Segment information

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

	Three Months Ended July 31	
	2017	2016
Sales from		
United States	**$ 22,187**	$ 22,167
Canada	**1,120**	1,402
	$ 23,307	$ 23,569

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.

In determining the reportable segments, the Company takes into consideration the nature of the various products and services to see if their economic characteristics are similar, geographical areas, and the methods used to distribute the products and services.

Based on these factors, the Company concluded that there are two reportable segments in terms of geographical areas, namely U.S. and Canada mainly due to differences in the currencies and the potential market size between U.S. and Canada.

Based on the nature of products and services, the Company concluded that there are two reportable segments in terms of products, namely Furniture and Walls. Aggregated in the Furniture segment are Systems, Benching, Storage and Seating, including such products sold by Inscape as well as West Elm Workspace with Inscape. The aggregation is based on the similarity in those products' functionalities, production or procurement process and method of distribution. Walls is a separate segment on its own due to the different nature of movable walls comparing to furniture, the production process and the installation services involved in the selling of movable walls.

Unaudited (in thousands except share and per share amounts)

	Three Months Ended July 31 2017	Three Months Ended July 31 2016
Segment Income (Loss)		
Furniture	**$ (844)**	$ 64
Movable walls and rollform	**233**	(137)
	(611)	(73)
Unrealized (loss) gain on foreign exchange	**(457)**	166
Unrealized gain (loss) on derivatives	**4,103**	(1,641)
Investment income	**23**	22
Income (Loss) before taxes	**3,058**	(1,526)
Income taxes	**-**	-
Net Income (loss)	**$ 3,058**	$ (1,526)

Segment income or loss represents the income 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 2017	2016
Net income (loss) for the period for basic and diluted earnings per share	**$ 3,058**	$ (1,526)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,380,701**	14,380,701
Dilution impact of stock options	**65,070**	210,609
Weighted average number of shares outstanding for diluted earnings per share	**14,445,771**	14,591,310

For the three-month period ended July 31, 2017, stock options are anti-dilutive and are therefore, not included in the computation of basic and diluted earnings per share. (July 31, 2016 – anti-dilutive)

7. Inventories

Unaudited (in thousands except share and per share amounts)

	July 31, 2017	April 30, 2017
Raw materials	**$ 4,148**	$ 3,775
Work-in-progress	**411**	446
Finished goods	**1,445**	871
	$ 6,004	$ 5,092

The cost of inventories recognized as cost of goods sold for the three-month period ended July 31, 2017 was $14,884 (July 31, 2016 - $15,463).

The Company did not incur an inventory write-down during the three-month period ended July 31, 2017 (July 31, 2016 - $52).

8. Financial instruments

8.1 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, 2017	April 30, 2017
Issued capital	**$ 52,868**	$ 52,868
Contributed surplus	**2,675**	2,675
Deficit	**(23,076)**	(26,134)
	$ 32,467	$ 29,409

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.

8.2 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, 2017, the Company had outstanding U.S. dollar hedge contracts with settlement dates from August 2017 to April 2019. The total notional amounts under the contracts are U.S $40,800 to $51,000 (July 31, 2016 - $41,200 to $51,500). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.25 CAD/USD to $1.45 CAD/USD (July 31, 2016 - $1.25 CAD/USD to $1.40 CAD/USD). These contracts had a mark-to-market unrealized gain of $1,886 (U.S. $1,512) as at July 31, 2017 (July 31, 2016 – unrealized loss of $935 or U.S. $716), which was recognized on the consolidated statement of financial position as derivative assets and liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the 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.

Unaudited (in thousands except share and per share amounts)

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

	Three Months Ended July 31	
	2017	2016
Fair value of derivative (liabilities) assets, beginning of period	**$ (2,217)**	$ 706
Changes in fair value during the period:		
Decrease in fair value of new contracts added	**-**	(65)
Reversal of derivative (liabilities) assets of contracts settled	**364**	(110)
Increase (Decrease) in fair values of outstanding contracts	**3,739**	(1,466)
Net increase (decrease) in fair value of derivative assets recognized during the period	**4,103**	(1,641)
Fair value of derivative assets (liabilities), end of period	**$ 1,886**	$ (935)
Current	**$ 1,226**	$ (615)
Long-term	**660**	(320)
	$ 1,886	$ (935)

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, 2017, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of approximately $117 on the Company's pre-tax earnings (July 31, 2016 – $85).

8.3 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, 2017, each 100 basis point variation in the market interest rate is estimated to result in a change of $14 in the Company's investment income (July 31, 2016 - $10).

8.4 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, 2017, the allowance for doubtful accounts was $268 (April 30, 2017 - $649).

8.5 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 31, 2016 - unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

8.6 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, 2017		**Level 1**		**Level 2**		**Level 3**
Short-term investments	**$**	**5,636**	**$**	**-**	**$**	**-**
Derivative assets		**-**		**1,886**		**-**
	$	**5,636**	**$**	**1,886**	**$**	**-**

April 30, 2017		Level 1		Level 2		Level 3
Short-term investments	$	4,278	$	-	$	-
Derivative liabilities		-		(2,217)		-
	$	4,278	$	(2,217)	$	-

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

9. Other long-term obligations

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

		July 31, 2017		April 30, 2017
Deferred Share Units	**$**	**395**	$	572
Stock Options		**530**		637
Restricted Share Units		**263**		246
	$	**1,188**	$	1,455

10. 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. Compensation of the Chief Executive Officer and two directors are paid through companies they control.

		Three Months Ended July 31,		
(in thousands)		**2017**		2016
Salaries and short-term benefits	**$**	**529**	$	435
Post-employment benefits		**4**		4
Share-based compensation		**362**		35
	$	**895**	$	474

11. Income taxes

At the previous fiscal year ended April 30, 2017 the Company recorded a valuation allowance of $6,383 to derecognize the future income tax benefit of loss carryforwards as deferred tax assets. The valuation allowance was utilized to reduce the Company's income tax expense for the three months ended July 31, 2017.

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, 2017 (July 31, 2016 – nil).

Inscape Corporation
Management's Discussion and Analysis
For the first quarter of fiscal year 2018 ended July 31, 2017

The following Management's Discussion and Analysis ("MD&A") of operating results and financial condition of Inscape Corporation and its subsidiaries ("the Company") for the first quarter ended July 31, 2017 should be read in conjunction with the accompanying Condensed Interim Consolidated Financial Statements and Notes for the periods ended July 31, 2017 and 2016, the MD&A in the fiscal year 2017 Annual Report and the audited Consolidated Financial Statements for the year ended April 30, 2017 including the notes thereto.

The discussion and analysis are as of September 7, 2017 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.inscapesolutions.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"). Inscape calculates EBITDA as earnings before interest, taxes, depreciation and amortization with the exclusion of share-based compensation, impairment loss, unrealized derivative and foreign exchange gain/loss. 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 Inscape, does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measure presented by other issuers.

Reference is also made to adjusted income or loss with the exclusion of share-based compensation, impairment loss, unrealized derivative and foreign exchange gain/loss, and expenses higher than historical levels. Management believes adjusted income/loss is a useful measure that facilitates period-to-period operating comparisons. The adjusted 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.

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 mainly in the Outlook section but also elsewhere 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, continuing recovery of the contract 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.

For over 125 years, Inscape has applied innovative design and engineering principles to the development of their products and delivered customized workplace solutions for clients. Inscape’s pursuit of design excellence includes a commitment to design for sustainability. The Company’s system, storage and wall products provide flexibility to create applications at a lower cost of ownership.

The Company reports in two business segments: the Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Inscape Walls segment includes architectural and movable walls. 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. The Company also has a West Elm Workspace office and distribution center in Grand Rapids, Michigan. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

Financial Highlights	**Three Months Ended July 31**			
(Unaudited)(in thousands of Canadian dollars)		**Fiscal 2018**		Fiscal 2017
Sales	**$**	**23,307**	$	23,569
Net income (loss)	**$**	**3,058**	$	(1,526)
Basic and diluted income (loss) per share	**$**	**0.21**	$	(0.11)
Adjusted net (loss) income	**$**	**(415)**	$	183
EBITDA	**$**	**163**	$	794

Overview

The first quarter of fiscal year 2018 ended with a net income of $3.1 million or 21 cents per share, compared with a net loss of $1.5 million or 11 cents per share in the same quarter of last year. Net income of both quarters included certain unrealized, non-cash expenses and one-time items that have significant impact on the net income per GAAP.

With the exclusion of these items, the first quarter of fiscal 2018 had an adjusted net loss of $0.4 million, compared with adjusted net income of $0.2 million in the same quarter of last year.

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 (loss) calculated in accordance with GAAP to the non-GAAP measure of adjusted net income (loss):

	Three Months Ended July 31	
(in thousands)	**Fiscal 2018**	Fiscal 2017
NET INCOME (LOSS)	**$ 3,058**	$ (1,526)
adjust non-operating or unusual items		
Unrealized (gain) loss on derivatives	**(4,103)**	1,641
Unrealized (gain) loss on foreign exchange	**457**	(166)
(Increase) Decrease in fair value of short-term investments	**-**	(31)
Stock based compensation	**(267)**	24
Severance obligation	**440**	241
ADJUSTED NET (LOSS) INCOME	**$ (415)**	$ 183

Results of Operations

Sales

(in thousands)	**Fiscal 2018**	Fiscal 2017	Change
Three Months Ended July 31	**$ 23,307**	$ 23,569	-1.1%

Sales in the first quarter of fiscal year 2018 was $0.3 million or 1.1% lower than the same quarter of the previous year due to lower volume in the Walls segment.

Gross Profit	**Fiscal 2018**		Fiscal 2017	
(in thousands)		**% of sales**		% of sales
Three Months Ended July 31	**$ 7,193**	**30.9%**	$ 6,852	29.1%

Despite lower volume, gross profit as a percentage of sales for the first quarter of fiscal year 2018 at 30.9% was 1.8 percentage points higher than last year's 29.1%. The unfavourable impact of lower volume was more than offset by lower production costs of favourable product mix and higher U.S. exchange during the quarter.

Selling, General & Administrative Expenses (SG&A)

	Fiscal 2018		Fiscal 2017	
(in thousands)		**% of sales**		% of sales
Three Months Ended July 31	**$ 7,804**	**33.5%**	$ 6,925	29.4%

Selling, general and administrative expenses ("SG&A") in the first quarter of fiscal year 2018 were 33.5% of sales, compared to 29.4% in the same quarter of last year. The dollar amount incurred was $0.9 million higher than the same quarter of last year. The increase includes investment in marketing, sales coverage and supply chain initiatives.

Net income (loss)		**Fiscal 2018**		Fiscal 2017	
(in thousands)			**% of sales**		% of sales
Three Months Ended July 31	**$**	**3,058**	**13.1%**	$ (1,526)	-6.5%

The first quarter of fiscal year 2018 had a net income of $3.1 million, compared to a net loss of $1.5 million in the same quarter of last year. With exclusion of unrealized and unusual items, the adjusted net loss of the current quarter was $0.4 million, compared with adjusted net income of $0.2 million in the same quarter of last year. Improvement in gross margin was more than offset by higher SG&A costs.

Income Tax

At the previous fiscal year ended April 30, 2017, the Company recorded a valuation allowance of $6.4 million to derecognize the future income tax benefit of loss carryforwards as deferred tax assets. The off-balance sheet valuation allowance was utilized to reduce the Company's income tax expense of the current quarter.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the previous eight quarters from August 1, 2015 through July 31, 2017 is provided below:

Selected Quarterly Information								
(in thousands, except for per share amounts)				**Quarters Ended**				
(Unaudited)		**July 31, 2017**		**April 30, 2017**		**January 31, 2017**		**October 31, 2016**
Sales	**$**	**23,307**	**$**	**21,023**	**$**	**23,161**	**$**	**27,543**
Gross profit	**$**	**7,193**	**$**	**5,564**	**$**	**7,018**	**$**	**9,116**
Gross profit %		30.9%		26.5%		30.3%		33.1%
Net income (loss)	**$**	**3,058**	**$**	**(2,087)**	**$**	**1,846**	**$**	**1,596**
Basic and diluted income (loss) per share	**$**	**0.21**	**$**	**(0.15)**	**$**	**0.13**	**$**	**0.11**
Adjusted net income (loss)	**$**	**(415)**	**$**	**(946)**	**$**	**1,133**	**$**	**2,952**
EBITDA	**$**	**163**	**$**	**(261)**	**$**	**1,760**	**$**	**3,612**

		Quarters Ended						
		July 31, 2016		April 30, 2016		January 31, 2016		October 31, 2015
Sales	$	23,569	$	20,480	$	22,948	$	21,144
Gross profit	$	6,852	$	5,208	$	6,333	$	5,066
Gross profit %		29.1%		25.4%		27.6%		24.0%
Net income (loss)	$	(1,526)	$	5,373	$	(2,157)	$	573
Basic and diluted income (loss) per share	$	(0.11)	$	0.37	$	(0.15)	$	0.04
Adjusted net income (loss)	$	183	$	(1,318)	$	328	$	(1,169)
EBITDA	$	794	$	(531)	$	1,051	$	(493)

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 (in thousands)

Three Months Ended July 31, (Unaudited)	**Fiscal 2018**	Fiscal 2017
Net cash flow generated from (used in):		
Operating activities before changes in working capital	**$ (215)**	$ 620
Net change in working capital	**(716)**	(326)
Investing activities	**(1,705)**	(858)
Foreign exchange (loss) gain on cash and cash equivalents	**(470)**	149
Net decrease in cash and cash equivalents	**(3,106)**	(415)
Cash and cash equivalents, beginning of period	**7,236**	5,989
Cash and cash equivalents, end of period	**$ 4,130**	$ 5,574

The first quarter of fiscal 2018 had a cash outflow of $0.2 million from operations before changes in working capital, compared to a cash inflow of $0.6 million in the same quarter of the previous year. Net increase in working capital of $0.7 million consisted of:

- $4.4 million increase in receivables relates to strong sales in the current quarter compared to the preceding quarter
- $1.1 million increase in inventories due to timing of finished goods shipments and increase in raw material requirements offset by
- $4.8 million increase in accounts payable and accrued liabilities relating to higher project activity and timing of payroll related accruals.

Cash outflow of $1.7 million from investing activities consists of $1.4 million investment in GIC's and $0.3 million of capital expenditures.

Credit Facility

The Company has a demand operating credit facility of $10 million and a demand credit facility for foreign exchange contracts of US $10 million with its bank. 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 personal 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, measured quarterly.

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

The Company was in compliance with the covenants as at July 31, 2017 (July 31, 2016 – in compliance).

The Company has not drawn on the demand operating and foreign exchange contracts credit facilities.

Contractual Obligations

The following is a summary of the Company's contractual obligations as at July 31, 2017:

	Payments due by period				
(in millions)	Total	1 year or less	2-3 years	4-5 years	After 5 years
Operating leases	$ 4.9	$ 1.3	$ 2.4	$ 1.2	$ -
Foreign exchange contracts	65.4	42.7	22.7	-	-
	$ 70.3	$ 44.0	$ 25.1	$ 1.2	$ -

Operating leases are in respect of various real properties that the Company leases. See "Financial Instruments" discussed below for the Company's obligations for foreign exchange contracts.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than the valuation allowance for tax benefits of loss carryforwards and operating leases discussed above.

Share Capital

The Company has 5,345,881 Class A multiple voting shares and 9,034,820 Class B subordinated voting shares outstanding at July 31, 2017. The Class A multiple voting shares carry ten votes each. The Class B subordinated voting shares, which are listed on the Toronto Stock Exchange (TMX), carry one vote each.

Related Party Transactions

(in thousands of dollars)

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	
(in thousands)	**Fiscal 2018**	Fiscal 2017
Salaries and short-term benefits	**$ 529**	$ 435
Post-employment benefits	**4**	4
Share-based compensation	**362**	35
	$ 895	$ 474

Future Accounting Changes

The following new standards, amendments, and interpretations that have been issued are expected to impact the Company, but are not effective for the fiscal year ending April 30, 2018, and accordingly, have not been applied in preparing the interim financial statements. The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

IFRS 2 Share-based Payments:
In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature, and a modification to the terms and conditions that changes the classification of the transactions. These amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 9 Financial Instruments:
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which united the various phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement as follows:

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements for expected credit losses and credit risk.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The standard also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The standard is effective for reporting periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 15 Revenue from Contracts with Customers:

In May 2014, the IASB issued 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 outlines a single comprehensive model on the core principle 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 contains enhanced disclosure requirements on the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and though permitted, has not been adopted early.

In April 2016, the IASB published clarifications to IFRS 15 which address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 16 Leases:
In January 2016, the IASB issued IFRS 16 Leases, specifying the recognition, measurement, presentation and disclosure requirements of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and though permitted, has not been adopted early.

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.

Critical judgments

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.

Allowance for doubtful accounts is based on management's 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 assets is based on management's judgment of what constitutes the smallest group of assets that can generate cash flows largely independent of other assets.

Determination of valuation allowance on 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.

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 estimates on the Company's financial performance during the vesting period of the performance and restricted share units.

Cash flow projections of the Company's cash generating units for the purposes of impairment tests 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 jurisdictions 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.

Financial Instruments

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 strictly prohibited. Management reports to the Board of Directors quarterly the Company's investment portfolios to show their compliance with the investment policy. The counterparty of the Company's derivatives is a major Canadian bank. 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 the aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. The Company has historically experienced minimal customer defaults on trade accounts receivable.

The Company's U.S. dollar denominated cash, trade accounts receivable, accounts payable and accrued liabilities are subject to the risk that their fair values will fluctuate because of changes in U.S. dollar exchange rate relative to the Canadian dollar. The Company uses U.S. currency hedge instruments to manage its U.S. dollars exchange risk. The counterparty of the financial instruments is a major Canadian bank. The Company has a policy in place to ensure that all such instruments are used only to manage risk and not for trading purposes. The outstanding hedge instruments are marked to market at the balance sheet date. Unrealized gains and losses on the contracts are recorded as derivative assets and liabilities on the balance sheet and the change in fair value of the instruments is recognized in earnings in the period of change.

As at July 31, 2017, the Company had outstanding U.S. dollar hedge contracts with settlement dates from August 2017 to April 2019. The total nominal amounts under the contracts are U.S $40.8 million to $51 million (July 31, 2016 - $41.2 million to $51.5 million). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.25 CAD/USD to $1.40 CAD/USD (July 31, 2016 - $1.25 CAD/USD to $1.40 CAD/USD). These contracts had a mark-to-market gain of $1.9 million (U.S. $1.5 million), which was recognized on the consolidated statement of financial position as derivative liabilities and assets. Changes in the hedge contracts' mark-to-market values 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.

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.

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.
During the three months ended July 31, 2017, 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.

September 7, 2017