

Inscape Announces Third Quarter Results

Inscape reports improved earnings

March 9, 2017: Inscape (TSX: INQ), a leading designer and manufacturer of furnishings for the workplace, today announced its third quarter financial results ended January 31, 2017.

Sales in the third quarter of fiscal year 2017 of \$23.4 million were 2% higher than the previous year, while net income improved to \$1.8 million or 13 cents per share compared to a net loss of \$2.2 million or 15 cents per share in the same quarter of the previous year. Year-to-date sales improved by 26.7%, and net income improved significantly to \$1.9 million or 13 cents per share compared to a net loss of \$6.6 million or 46 cents per share a year ago.

“We are pleased with our third quarter results as we continue to grow sales and earnings in a competitive environment,” said Brian Mirsky, CEO. **“We are making meaningful progress on the execution of our strategic plan which includes strengthening our dealer network and expanding our customer base.”**

Summary of Consolidated Financial Results

(Unaudited) (in thousands except EPS)

	Three months ended January 31		Nine months ended January 31	
	2017	2016	2017	2016
Sales	\$ 23,413	\$ 22,948	\$ 75,230	\$ 59,366
Gross profit	7,018	6,333	22,985	14,595
Selling, general & administrative expenses	6,814	6,763	20,340	19,306
Unrealized (gain) loss on foreign exchange	211	(489)	(150)	(845)
Unrealized (gain) loss on derivatives	(1,790)	2,240	986	2,869
Investment income	(63)	(24)	(106)	(108)
Income (loss) before taxes	1,846	(2,157)	1,915	(6,627)
Income taxes	-	-	-	-
Net income (loss)	\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)
Basic earnings (loss) per share	\$ 0.13	\$ (0.15)	\$ 0.13	\$ (0.46)
Weighted average number of shares (in thousands) for basic EPS calculation	14,381	14,381	14,381	14,381

Net income and loss of the reporting periods included certain unrealized, non-cash expenses and one-time items that have significant impacts on the net income and loss per GAAP. With the exclusion of these items, the third quarter of fiscal 2017 had an adjusted net income of \$1.1 million, compared with adjusted net income of \$0.3 million in the same quarter of last year, an improvement of \$0.8 million. Year-to-date third quarter had an adjusted net income of \$4.3 million, an improvement of \$8.0 million from last year adjusted net loss of \$3.7 million. 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 chart below is a reconciliation of net income (loss) before taxes calculated in accordance with GAAP to the non-GAAP measure of adjusted net income (loss):

GAAP and Non-GAAP Net Income (Loss) Reconciliation

(in thousands)

	Three months ended January 31		Nine months ended January 31	
	2017	2016	2017	2016
NET INCOME (LOSS)	\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)
adjust non-operating or unusual items				
Unrealized (gain) loss on derivatives	(1,790)	2,240	986	2,869
Unrealized (gain) loss on foreign exchange	211	(489)	(150)	(845)
(Increase) decrease in fair value of short-term investments	(69)	61	(118)	207
Stock based compensation	1,544	250	2,063	307
Defined benefit pension plan settlement loss	-	378	-	378
Settlement of customer accounts	(649)	-	(600)	-
Severance obligation	40	18	233	45
ADJUSTED NET INCOME (LOSS)	\$ 1,133	\$ 301	\$ 4,329	\$ (3,666)

Sales in the third quarter of fiscal year 2017 were \$0.5 million or 2% higher than the same quarter of the previous year. The current year's quarter benefited from higher U.S. currency hedge rates than the same quarter of last year, offset by lower realized selling prices.

Normalized sales, excluding the impacts of U.S. exchange and realized selling prices, were at about the same level of the previous year.

Year-to-date sales improved from last year's \$59.4 million to the current year's \$75.2 million, an increase of \$15.9 million or 26.7%. Sales were up in all segments. The sales increase included about \$6.8 million U.S. exchange gain. Sales on a normalized basis with the exclusion of the U.S. currency gain were \$9.1 million or 15.3% higher than last year.

Gross profit as a percentage of sales for the third quarter of fiscal year 2017 was 30.0%, an improvement of 2.4 percentage points from the 27.6% of the same quarter of the previous year. Gains from the higher U.S. currency hedge rates and lower manufacturing overheads were partially offset by competitive pressure on selling prices.

Year-to-date gross profit percentage was at 30.6%, an increase of 6 percentage points compared to last year's gross profit percentage of 24.6%. Contributions from higher U.S. exchange rate and sales volume were reduced by pressure on realized selling prices.

Selling, general and administrative expenses ("SG&A") in the third quarter of fiscal year 2017 were 29.1% of sales, compared to 29.5% in the same quarter of last year. The dollar amount incurred was at about the same level as in the previous year. Share-based compensation included in SG&A was higher than the same quarter of last year by \$1.1 million, mainly a result of 47.6% increase in the Company's share price during the quarter. The increase was offset by \$0.4 million defined benefit pension plan settlement loss recorded in the same quarter of last year versus nil in the current quarter and \$0.6 million one-time gains from the settlements of several customer accounts to the Company's favour.

Year-to-date SG&A was 27.0% of sales, compared to 32.5% for the same period of last year. The dollar amount incurred was \$1.0 million or 5.4% higher than last year, consisting of \$0.6 million variable selling expenses associated with higher sales and \$0.4 million fixed overheads. The increase of \$0.4 million or 2.9% in fixed SG&A consists mainly of fair value of share-based compensation, increased investments in fixed selling expenses, accrued bonuses, and severance obligation incurred in the first quarter of the year, partially offset by one-time gains from the settlements of several customer accounts to the Company's favour.

At the previous fiscal year ended April 30, 2016, the Company recorded a valuation allowance of \$7.0 million to derecognize the future income tax benefit of loss carry forwards as deferred tax assets. For the nine-month period ended January 31, 2017, \$1.5 million of the \$7.0 million valuation allowance was utilized to reduce the Company's income tax expense.

At the end of the third quarter of fiscal 2017, the company was debt-free and had cash, cash equivalent and short-term investments totaling \$10.4 million.

Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

January 31, 2017 and 2016

inscape

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

	Note	January 31, 2017	April 30, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 5,197	\$ 5,989
Short-term investments		5,246	4,506
Trade and other receivables	8.4	14,818	11,225
Inventories	7	7,020	4,932
Income taxes receivable		128	89
Prepaid expenses		1,129	1,019
Derivative assets	8.2	-	416
		33,538	28,176
NON-CURRENT ASSETS			
Property, plant and equipment		15,216	16,038
Intangible assets		1,877	1,585
Derivative assets	8.2	51	290
Deferred tax assets		695	695
		\$ 51,377	\$ 46,784
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 12,995	\$ 12,596
DEFERRED TAX LIABILITIES		1,203	1,194
DERIVATIVE LIABILITIES	8.2	330	-
OTHER LONG-TERM OBLIGATIONS	9	2,860	1,195
RETIREMENT BENEFIT OBLIGATION		5,460	5,272
		22,848	20,257
CAPITAL AND RESERVES			
Issued capital		52,868	52,868
Contributed surplus		2,675	2,675
Accumulated other comprehensive loss		(2,967)	(3,054)
Deficit		(24,047)	(25,962)
		28,529	26,527
		\$ 51,377	\$ 46,784

The accompanying notes are an integral part of these condensed interim consolidated 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
(Unaudited) (in thousands of Canadian dollars, except per share amounts)

	Note	Three Months Ended January 31,		Nine Months Ended January 31,	
		2017	2016	2017	2016
SALES	5	\$ 23,413	\$ 22,948	\$ 75,230	\$ 59,366
COST OF GOODS SOLD		16,395	16,615	52,245	44,771
GROSS PROFIT		7,018	6,333	22,985	14,595
EXPENSES					
Selling, general and administrative		6,814	6,763	20,340	19,306
Unrealized (gain) loss on foreign exchange		211	(489)	(150)	(845)
Unrealized (gain) loss on derivatives	8	(1,790)	2,240	986	2,869
Investment income		(63)	(24)	(106)	(108)
		5,172	8,490	21,070	21,222
INCOME (LOSS) BEFORE TAXES		1,846	(2,157)	1,915	(6,627)
INCOME TAXES	11	-	-	-	-
NET INCOME (LOSS)		\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	6	\$ 0.13	\$ (0.15)	\$ 0.13	\$ (0.46)

SUPPLEMENTAL INFORMATION

Salaries, wages and benefits included in cost of goods sold	\$ 4,028	\$ 4,590	\$ 12,438	\$ 12,682
Salaries, wages and benefits included in selling, general and administrative	4,559	3,635	11,521	9,667
Total salaries, wages and benefits	\$ 8,587	\$ 8,225	\$ 23,959	\$ 22,349
Amortization included in cost of goods sold	\$ 393	\$ 473	\$ 1,165	\$ 1,391
Amortization included in selling, general and administrative	297	274	837	715
Total amortization	\$ 690	\$ 747	\$ 2,002	\$ 2,106

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

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

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

		Three Months Ended January 31,		Nine Months Ended January 31,	
		2017	2016	2017	2016
NET INCOME (LOSS)		\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified to earnings					
Exchange gain (loss) on translating foreign operations		(164)	351	87	667
OTHER COMPREHENSIVE INCOME (LOSS)		(164)	351	87	667
TOTAL COMPREHENSIVE INCOME (LOSS)		\$ 1,682	\$ (1,806)	\$ 2,002	\$ (5,960)

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

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

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI")		Deficit	Total Shareholders' Equity
			Cumulative Remeasurement of Defined Benefit Liabilities	Cumulative Translation gain		
Period Ended January 31, 2017						
BALANCE - May 1, 2016	\$ 52,868	\$ 2,675	\$ (3,922)	\$ 868	\$ (25,962)	\$ 26,527
Net Income	-	-	-	-	1,915	1,915
Other Comprehensive Income	-	-	-	87	-	87
Total Comprehensive Income	-	-	-	87	1,915	2,002
BALANCE - January 31, 2017	\$ 52,868	\$ 2,675	\$ (3,922)	\$ 955	\$ (24,047)	\$ 28,529

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI")		Deficit	Total Shareholders' Equity
			Cumulative Remeasurement of Defined Benefit Liabilities	Cumulative Translation gain		
Period Ended January 31, 2016						
BALANCE - May 1, 2015	\$ 52,868	\$ 2,675	\$ (1,857)	\$ 848	\$ (24,708)	\$ 29,826
Net Loss	-	-	-	-	(6,627)	(6,627)
Other Comprehensive Income	-	-	-	667	-	667
Total Comprehensive Income	-	-	-	667	(6,627)	(5,960)
BALANCE - January 31, 2016	\$ 52,868	\$ 2,675	\$ (1,857)	\$ 1,515	\$ (31,335)	\$ 23,866

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

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

	Note	Three Months Ended January 31,		Nine Months Ended January 31,	
		2017	2016	2017	2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net Income (loss)		\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)
Items not affecting cash:					
Amortization and depreciation		690	747	2,002	2,106
Pension expense		175	554	520	898
Unrealized (gain) loss on short-term investments held for trading		(69)	61	(118)	207
Unrealized loss (gain) on derivatives	8.2	(1,790)	2,240	986	2,869
Share based compensation		1,146	245	1,664	302
Unrealized (gain) loss on foreign exchange		211	(489)	(150)	(845)
Gain on disposal of capital assets		-	-	(2)	-
Employer's contribution to pension funds		(171)	(406)	(424)	(658)
Cash generated from (used for) operating activities before non-cash working capital		2,038	795	6,393	(1,748)
Movements in non-cash working capital					
Trade and other receivables		(539)	(1,044)	(3,373)	(2,943)
Inventories		(1,543)	(331)	(2,049)	(702)
Prepaid expenses		236	185	(90)	(359)
Accounts payable and accrued liabilities		(1,595)	1,700	148	2,957
Income tax receivables and payables		(18)	(2)	(36)	(20)
Cash generated from (used for) operating activities		(1,421)	1,303	993	(2,815)
INVESTING ACTIVITIES					
Short-term investments held for trading		(597)	1,059	(622)	5,155
Additions to property, plant and equipment & intangible assets		(227)	(366)	(1,364)	(1,681)
Proceeds from disposal of capital assets		-	-	2	-
Cash generated from (used for) investing activities		(824)	693	(1,984)	3,474
Unrealized foreign exchange gain (loss) on cash and cash equivalents		(74)	184	199	336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(2,319)	2,180	(792)	995
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		7,516	2,007	5,989	3,192
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 5,197	\$ 4,187	\$ 5,197	\$ 4,187
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		\$ 4,935	\$ 3,390	\$ 4,935	\$ 3,390
Cash equivalents		262	797	262	797
		\$ 5,197	\$ 4,187	\$ 5,197	\$ 4,187

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

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

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. Inscapе 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, 2016.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 9, 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, 2017, 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.

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		Nine Months Ended	
	January 31		January 31	
	2017	2016	2017	2016
Sales from				
United States	\$ 22,374	20,566	\$ 71,691	\$ 53,863
Canada	942	2,382	3,423	5,503
Other	97	-	116	-
	\$ 23,413	\$22,948	\$ 75,230	\$ 59,366

Inscape Corporation
 Notes to the Condensed Interim Consolidated Financial Statements
 Unaudited (in thousands except share and per share amounts)

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.

	Three Months Ended		Nine Months Ended	
	January 31		January 31	
	2017	2016	2017	2016
Segment Sales				
Furniture	\$ 18,322	\$ 17,634	\$ 54,613	\$ 43,340
Movable walls and rollform	5,091	5,314	20,617	16,026
	\$ 23,413	\$ 22,948	\$ 75,230	\$ 59,366
Segment Income (Loss)				
Furniture	\$ 683	\$ 717	\$ 2,664	\$ (1,331)
Movable walls and rollform	(479)	(1,147)	(19)	(3,380)
	204	(430)	2,645	(4,711)
Unrealized gain (loss) on foreign exchange	(211)	489	150	845
Unrealized (loss) gain on derivatives	1,790	(2,240)	(986)	(2,869)
Investment income	63	24	106	108
Income (Loss) before taxes	1,846	(2,157)	1,915	(6,627)
Income taxes	-	-	-	-
Net Income (loss)	\$ 1,846	\$ (2,157)	\$ 1,915	\$ (6,627)

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:

<i>Numerator</i>	Three Months Ended January 31,	
	2017	2016
Net income (loss) for the quarter for basic and diluted earnings per share	\$ 1,846	\$ (2,157)
<i>Denominator</i>		
Weighted average number of shares outstanding for basic earnings per share	14,380,701	14,380,701
Dilution impact of stock options	189,722	247,060
Weighted average number of shares outstanding for diluted earnings per share	14,570,423	14,627,761

<i>Numerator</i>	Nine Months Ended January 31	
	2017	2016
Net income (loss) for the period for basic and diluted earnings per share	\$ 1,915	\$ (6,627)
<i>Denominator</i>		
Weighted average number of shares outstanding for basic earnings per share	14,380,701	14,380,701
Dilution impact of stock options	150,301	285,171
Weighted average number of shares outstanding for diluted earnings per share	14,531,002	14,665,872

For the three-month period ended January 31, 2017, all potential shares are included in the weighted average number of shares for the purpose of diluted earnings per share calculation (2016 – 142,566 potential shares are anti-dilutive and they are excluded from the weighted average number of shares calculation).

For the nine-month period ended January 31, 2017, 180,218 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted loss per share calculation (2016 – 105,066 potential shares are anti-dilutive and they are excluded from the weighted average number of shares calculation).

7. Inventories

	January 31,	April 30,
	2017	2016
Raw materials	\$ 4,457	\$ 3,244
Work-in-progress	388	393
Finished goods	2,175	1,295
	\$ 7,020	\$ 4,932

The cost of inventories recognized as cost of goods sold was \$15,514 (2016 - \$15,434) for the three-month period and \$48,260 (2016 - \$41,047) for the nine-month period ended January 31, 2017.

There was an inventory write-down of \$121 (2016 - \$35) during the three-month period and \$174 (2016 - \$83) during the nine-month period ended January 31, 2017.

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:

	January 31, 2017	April 30, 2016
Issued capital	\$ 52,868	\$ 52,868
Contributed surplus	2,675	2,675
Deficit	(24,047)	(25,962)
	\$ 31,496	\$ 29,581

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 January 31, 2017, the Company had outstanding U.S. dollar hedge contracts with settlement dates from February 2017 to October 2018. The total nominal amounts under the contracts are U.S. \$40,800 to \$51,000 (January 31, 2016 - \$47,400 to \$59,250). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.2525 CAD/USD to \$1.3040 CAD/USD (January 31, 2016 - \$1.11 CAD/USD to \$1.40 CAD/USD). These contracts had a mark-to-market net loss of \$279 (USD. \$215) (January 31, 2016 loss of \$6,815, USD \$4,866), 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

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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 period:

	Nine Months Ended January 31	
	2017	2016
Fair value of derivative assets (liabilities), beginning of period	\$ 706	\$ (3,945)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	(401)	(448)
Reversal of derivative (assets) liabilities of contracts settled	(324)	2,961
Decrease in fair values of outstanding contracts	(260)	(5,383)
Net increase in fair value of derivative liabilities recognized during the period	(985)	(2,870)
Fair value of derivative liabilities, end of period	\$ (279)	\$ (6,815)
Current assets (liabilities)	\$ 51	\$ (5,184)
Long-term liabilities	(330)	(1,631)
Net derivative liabilities	\$ (279)	\$ (6,815)

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 nine-month period ended January 31, 2017, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of approximately \$307 on the Company's pre-tax earnings (2016 – \$511).

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 nine-month period ended January 31, 2017, each 100 basis point variation in the market interest rate is estimated to result in a change of \$30 in the Company's investment income (2016 - \$45).

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 January 31, 2017, the allowance for doubtful accounts was \$646 (April 30, 2017 - \$609).

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 (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).

January 31, 2017	Level 1	Level 2	Level 3
Short-term investments	\$ 5,246	\$ -	\$ -
Derivative liabilities	-	(279)	-
	\$ 5,246	\$ (279)	\$ -
April 30, 2016	Level 1	Level 2	Level 3
Short-term investments	\$ 4,506	\$ -	\$ -
Derivative assets	-	706	-
	\$ 4,506	\$ 706	\$ -

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.

	January 31, 2017	April 30, 2016
Deferred Share Units	\$ 719	\$ 322
Stock Options	1,843	780
Restricted Share Units	298	93
	\$ 2,860	\$ 1,195

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.

	Three Months Ended		Nine Months Ended	
	January 31,		January 31	
	2017	2016	2017	2016
Salaries and short-term benefits	\$ 517	\$ 427	\$ 1,547	\$ 1,306
Post-employment benefits	3	4	11	14
Share-based compensation	1,346	224	1,815	285
	\$ 1,866	\$ 655	\$ 3,373	\$ 1,605

During the period, 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 an Executive Officer of the Company is a shareholder of that entity. The relationship provides the Company immediate resources to implement new initiatives. The expense incurred was \$25 for the three-month period (2016 - \$15) and \$110 for the nine-month period ended January 31, 2017 (2016 - \$115).

11. Income taxes

At the previous fiscal year ended April 30, 2016 the Company recorded a valuation allowance of \$6,987 to derecognize the future income tax benefit of loss carryforwards as deferred tax assets. For the nine-month period ended January 31, 2017, \$1,462 of the \$6,987 valuation allowance was utilized to reduce the Company's income tax expense.

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 January 31, 2017 (January 31, 2016 – nil).

Third Quarter Call Details

Inscape will host a conference call at 8:30 AM EST on Friday, March 10, 2017 to discuss the company's quarterly results. To participate, please call 1-800-705-7434 five minutes before the start time. A replay of the conference call will also be available from March 10, 2017 after 10:30 AM EST until 11:59 PM EST on March 17, 2017. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21843586).

Forward-looking Statements

Certain of the above statements are forward-looking statements that involve risks and uncertainties. Actual results could differ materially as a result of many factors including, but not limited to, further changes in market conditions and changes or delays in anticipated product demand. In addition, future results may also differ materially as a result of many factors, including: fluctuations in the company's operating results due to product demand arising from competitive and general economic and business conditions in North America; length of sales cycles; significant fluctuations in international exchange rates, particularly the U.S. dollar exchange rate; restrictions in access to the U.S. market; changes in the company's markets, including technology changes and competitive new product introductions; pricing pressures; dependence on key personnel; and other factors set forth in the company's Ontario Securities Commission reports and filings.

About Inscape

Inscape has supported the evolution of the workspace since 1888. A versatile portfolio of systems, storage, walls and seating products addresses the diverse needs of today's office with solutions that stand the test of time – built to last and inherently flexible. Dedicated to delivering innovative solutions with care and expertise, Inscape is here to help you make life at work better.

For more information, visit www.inscapesolutions.com.

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