Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

October 31, 2017 and 2016

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

	Note	**October 31, 2017**	April 30, 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 4,655**	$ 7,236
Short-term investments		**5,654**	4,278
Trade and other receivables	8.4	**12,293**	11,965
Inventories	7	**7,280**	5,092
Income taxes receivable		**152**	141
Prepaid expenses		**1,284**	1,234
Derivative assets	8.2	**312**	-
		31,630	29,946
NON-CURRENT ASSETS			
Property, plant and equipment		**14,345**	15,115
Intangible assets		**1,740**	1,809
Derivative assets	8.2	**-**	-
Deferred tax assets		**695**	695
		$ 48,410	$ 47,565
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 13,863**	$ 10,139
Derivative liabilities	8.2	**-**	1,381
		13,863	11,520
DEFERRED TAX LIABILITIES		**1,201**	1,216
DERIVATIVE LIABILITIES	8.2	**11**	836
OTHER LONG-TERM OBLIGATIONS	9	**813**	1,455
RETIREMENT BENEFIT OBLIGATION		**4,674**	4,734
		20,562	19,761
CAPITAL AND RESERVES			
Issued capital		**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive loss		**(2,057)**	(1,605)
Deficit		**(25,638)**	(26,134)
		27,848	27,804
		$ 48,410	$ 47,565

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

Approved by the Board of Directors,

(signed)
Chairman
Madan Bhayana

(signed)
Director
Eric Ehgoetz

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

	Note	Three Months Ended October 31, 2017	2016	Six Months Ended October 31, 2017	2016
SALES	5	**$ 23,209**	$ 27,542	**$ 46,516**	$ 51,111
COST OF GOODS SOLD		**17,144**	18,427	**33,258**	35,144
GROSS PROFIT		**6,065**	9,115	**13,258**	15,967
EXPENSES					
Selling, general and administrative		**7,179**	6,601	**14,983**	13,526
Unrealized loss (gain) on foreign exchange		**(119)**	(195)	**338**	(361)
Unrealized (gain) loss on derivatives	8	**1,586**	1,135	**(2,517)**	2,776
Investment income		**(19)**	(21)	**(42)**	(43)
		8,627	7,520	**12,762**	15,898
INCOME (LOSS) BEFORE TAXES		**(2,562)**	1,595	**496**	69
INCOME TAXES	11	**-**	-	**-**	-
NET INCOME (LOSS)		**$ (2,562)**	$ 1,595	**$ 496**	$ 69
BASIC AND DILUTED INCOME (LOSS) PER SHARE	6	**$ (0.18)**	$ 0.11	**$ 0.03**	$ 0.00
SUPPLEMENTAL INFORMATION					
Salaries, wages and benefits included in cost of goods sold		**$ 3,968**	$ 4,284	**$ 7,992**	$ 8,410
Salaries, wages and benefits included in selling, general and administrative		**3,454**	3,490	**6,664**	6,962
Total salaries, wages and benefits		**$ 7,422**	$ 7,774	**$ 14,656**	$ 15,372
Amortization included in cost of goods sold		**$ 291**	$ 387	**$ 583**	$ 772
Amortization included in selling, general and administrative		**304**	292	**613**	540
Total amortization		**$ 595**	$ 679	**$ 1,196**	$ 1,312

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 October 31, 2017	2016	Six Months Ended October 31, 2017	2016
NET INCOME (LOSS)		**$ (2,562)**	$ 1,595	**$ 496**	$ 69
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified to earnings					
Exchange (loss) gain on translating foreign operations		**181**	-	**(452)**	172
OTHER COMPREHENSIVE (LOSS) INCOME		**181**	-	**(452)**	172
TOTAL COMPREHENSIVE INCOME (LOSS)		**$ (2,381)**	$ 1,595	**$ 44**	$ 241

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)

Period Ended October 31, 2017	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") — Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Income (Loss) ("AOCI") — 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	**-**	**-**	**-**	**-**	**496**	**496**
Other Comprehensive Loss	**-**	**-**	**-**	**(452)**	**-**	**(452)**
Total Comprehensive Income	**-**	**-**	**-**	**(452)**	**496**	**44**
BALANCE - October 31, 2017	**$ 52,868**	**$ 2,675**	**$ (2,932)**	**$ 875**	**$ (25,638)**	**$ 27,848**

Period Ended October 31, 2016	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") — Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Income (Loss) ("AOCI") — Cumulative Translation gain	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2016	$ 52,868	$ 2,675	$ (3,922)	$ 868	$ (26,203)	$ 26,286
Net Loss	-	-	-	-	69	69
Other Comprehensive Income	-	-	-	1,449	-	1,449
Total Comprehensive Loss	-	-	-	1,449	69	1,518
BALANCE - October 31, 2016	$ 52,868	$ 2,675	$ (3,922)	$ 2,317	$ (26,134)	$ 27,804

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 October 31, 2017	Three Months Ended October 31, 2016	Six Months Ended October 31, 2017	Six Months Ended October 31, 2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net income (loss)		**$ (2,562)**	$ 1,595	**$ 496**	$ 69
Items not affecting cash:					
Amortization and depreciation		**595**	679	**1,196**	1,312
Pension expense		**142**	176	**282**	345
Unrealized gain on short-term investments held for trading		**0**	(18)	**-**	(49)
Unrealized (gain) loss on derivatives	8.2	**1,586**	1,135	**(2,517)**	2,776
Share based compensation		**(374)**	494	**(641)**	518
Unrealized loss (gain) on foreign exchange		**(119)**	(195)	**338**	(361)
(Gain) Loss on disposal of capital assets		**-**	(2)	**-**	(2)
Employer's contribution to pension funds		**(126)**	(129)	**(227)**	(253)
Cash (used for) generated from operating activities before non-cash working capital		**(858)**	3,735	**(1,073)**	4,355
Movements in non-cash working capital					
Trade and other receivables		**3,524**	(1,388)	**(845)**	(2,834)
Inventories		**(1,201)**	(117)	**(2,264)**	(506)
Prepaid expenses		**(45)**	97	**(67)**	(326)
Accounts payable and accrued liabilities		**(783)**	(201)	**3,963**	1,743
Income tax receivables and payables		**(10)**	(6)	**(18)**	(18)
Cash (used for) generated from operating activities		**627**	2,120	**(304)**	2,414
INVESTING ACTIVITIES					
Short-term investments held for trading		**(18)**	(13)	**(1,376)**	(25)
Additions to property, plant and equipment & intangible assets		**(190)**	(291)	**(537)**	(1,137)
Proceeds from disposal of capital assets			2	**-**	2
Cash (used for) generated from investing activities		**(208)**	(302)	**(1,913)**	(1,160)
Unrealized foreign exchange (loss) gain on cash and cash equivalents		**111**	124	**(359)**	273
NET DECREASE IN CASH AND CASH EQUIVALENTS		**530**	1,942	**(2,576)**	1,527
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**4,130**	5,574	**7,236**	5,989
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 4,660**	$ 7,516	**$ 4,660**	$ 7,516
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		**$ 4,649**	$ 6,679	**$ 4,649**	$ 6,679
Cash equivalents		**6**	837	**6**	837
		$ 4,655	$ 7,516	**$ 4,655**	$ 7,516

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 at 67 Toll Road, Holland Landing, Ontario, Canada.

The Company is an office furniture manufacturer with production at two facilities in Canada and the United States in approximately 438,000 square feet of space. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

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 December 6, 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 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 estimate of 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 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 Payments, 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 reports revenue and income 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 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)

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

	Three Months Ended October 31		Six Months Ended October 31	
	2017	2016	**2017**	2016
Sales from				
United States	**$ 21,510**	26,463	**$ 43,697**	$ 48,630
Canada	**1,699**	1,079	**2,819**	2,481
	$ 23,209	$ 27,542	**$ 46,516**	$ 51,111

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

	Three Months Ended October 31		Six Months Ended October 31	
	2017	2016	**2017**	2016
Segment Income (loss)				
Furniture	**$ (265)**	$ 1,917	**$ (1,109)**	$ 1,981
Movable walls and rollform	**(849)**	597	**(616)**	460
	(1,114)	2,514	**(1,725)**	2,441
Unrealized (loss) gain on foreign exchange	**119**	195	**(338)**	361
Unrealized gain (loss) on derivatives	**(1,586)**	(1,135)	**2,517**	(2,776)
Investment income	**19**	21	**42**	43
Income before taxes	**(2,562)**	1,595	**496**	69
Income taxes	**-**	-	**-**	-
Net Income	**$ (2,562)**	$ 1,595	**$ 496**	$ 69

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:

	Three Months Ended October 31	
Numerator	**2017**	2016
Net (loss) income for the quarter for basic and diluted earnings per share	**$ (2,562)**	$ 1,595
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,380,701**	14,380,701
Dilution impact of stock options	**55,161**	240,618
Weighted average number of shares outstanding for diluted earnings per share	**14,435,862**	14,621,319

Unaudited (in thousands except share and per share amounts)

	Six Months Ended October 31	
Numerator	**2017**	2016
Net income (loss) for the period for basic and diluted earnings per share	**$ 496**	$ 69
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,380,701**	14,380,701
Dilution impact of stock options	**59,465**	214,466
Weighted average number of shares outstanding for diluted earnings per share	**14,440,166**	14,595,167

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

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

7. Inventories

	October 31, 2017	April 30, 2017
Raw materials	**$ 4,837**	$ 3,775
Work-in-progress	**416**	446
Finished goods	**2,027**	871
	$ 7,280	$ 5,092

The cost of inventories recognized as cost of goods sold was $16,223 (October 31, 2016 - $17,283) for the three-month period and $31,107 (October 31, 2016 - $32,746) for the six-month period ended October 31, 2017.

The Company did not incur an inventory write-down during the three-month period ended October 31, 2017 (October 31, 2016 - $12) and the six month period ended October 31, 2017 (October 31, 2016 - $64).

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.

Unaudited (in thousands except share and per share amounts)

Management defines capital as the Company's total capital and reserves excluding accumulated other comprehensive income (loss) as summarized in the following table:

	October 31, 2017	April 30, 2017
Issued capital	**$ 52,868**	$ 52,868
Contributed surplus	**2,675**	2,675
Deficit	**(25,638)**	(26,134)
	$ 29,905	$ 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 anticipated sales to the U.S. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Compliance with policies and exposure limits are 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 October 31, 2017, the Company had outstanding U.S. dollar hedge contracts with settlement dates from November 2017 to August 2019. The total notional amounts under the contracts are U.S $41,600 to $52,000 (October 31, 2016 - $41,600 to $52,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.242 CAD/USD to $1.448 CAD/USD (October 31, 2016 - $1.2525 CAD/USD to $1.4040 CAD/USD). These contracts had a mark-to-market unrealized gain of $301 (U.S. $233) as at October 31, 2017 (October 31, 2016 – unrealized loss of $2,070 or U.S. $1,543), 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:

	Six Months Ended October 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	**-**	(496)
Reversal of derivative (liabilities) assets of contracts settled	**364**	(220)
Increase (decrease) in fair values of outstanding contracts	**2,154**	(2,060)
Net increase (decrease) in fair value of derivative assets recognized during the period	**2,518**	(2,776)
Fair value of derivative assets (liabilities), end of period	**$ 301**	$ (2,070)
Current	**$ 312**	$ (1,379)
Long-term	**(11)**	(691)
	$ 301	$ (2,070)

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 six-month period ended October 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 (October 31, 2016 – $205).

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 six-month period ended October 31, 2017, each 100 basis point variation in the market interest rate is estimated to result in a change of $14 to the Company's investment income (October 31, 2016 - $20).

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. On a quarterly basis, management reviews the Company's investment portfolio with the Audit Committee to demonstrate compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing 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 October 31, 2017, the allowance for doubtful accounts was $224 (April 30, 2017 - $649).

Unaudited (in thousands except share and per share amounts)

8.5 Liquidity risk management

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

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

October 31, 2017	**Level 1**	**Level 2**	**Level 3**
Short-term investments	**$ 5,654**	**$ -**	**$ -**
Derivative assets	**-**	**312**	**-**
	$ 5,654	**$ 312**	**$ -**

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.

Unaudited (in thousands except share and per share amounts)

9. Other long-term obligations

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

	October 31, 2017	April 30, 2017
Deferred Share Units	**$ 374**	$ 572
Stock Options	**316**	637
Restricted Share Units	**123**	246
	$ 813	$ 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 Marketing, 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 October 31,		**Six Months Ended October 31**	
	2017	2016	**2017**	2016
Salaries and short-term benefits	**$ 469**	$ 492	**$ 998**	$ 1,030
Post-employment benefits	**7**	4	**11**	8
Share-based compensation	**(587)**	434	**(225)**	469
	$ (111)	$ 930	**$ 784**	$ 1,507

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 six months ended October 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 October 31, 2017 (October 31, 2016 – none).