

FOR IMMEDIATE RELEASE

## Inscape Announces First Quarter Results

Sales increased by 20% over previous quarter

**September 10, 2015:** Inscape (TSX: INQ) today announced its first quarter financial results ended July 31, 2015.

The first quarter's sales of \$15.3 million was \$2.6 million or 20.8% higher than the sales of \$12.6 million of the preceding quarter ended on April 30, 2015. Operating results (gross profit net of selling, general and administrative expenses) also improved from a loss of \$5.2 million in the preceding quarter to a loss of \$3.1 million in the current quarter. The quarter-over-quarter improvement in financial results was attributable to higher sales, higher gross profit and lower SGA expenses.

**"While we have seen improvement in sales this quarter, our challenges underscore the importance of effectively and rapidly implementing our current initiatives. Multiple efforts to improve future performance are underway, and we are pleased with our progress,"** said Jim Stelter, CEO, Inscape. **"We are on schedule with our distribution strategy, with more committed dealers than expected. Our success at NeoCon, including the Best of NeoCon Awards won for West Elm Workspace with Inscape products, also reflects our progress as an organization."**

The first quarter of fiscal year 2016 ended with a net loss of \$5.0 million or 35 cents per share, compared with a net income of \$0.8 million, or 5 cents per share a year ago. Sales in the first quarter of fiscal year 2016 was \$3.8 million or 19.8% lower than the same quarter of the previous year due to decline in the number of large projects mainly in the furniture business. The current quarter's results included an unrealized derivative loss of \$2.4 million relating to a decrease in the fair value of outstanding U.S. currency hedge contracts, whereas the same quarter of last year had an unrealized derivative gain of \$1.0 million.

Net income or loss with the exclusion of these unrealized items 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.

Gross profit as a percentage of sales decreased 5.9 percentage points from last year's 26.8% to the current year's 20.9%. The decrease in gross profit percentage was due to lower sales volume that resulted in unfavourable overhead absorption and reduced production efficiency.

SG&A for the first quarter was 41.2% of sales versus 26.6% of last year or an increase of \$1.2 million. The higher SG&A amount spent was mainly attributable to approximately \$0.8 million

startup costs for the West Elm Workspace with Inscap business and increased investment in fixed selling expenses.

At the end of the first quarter of fiscal year 2016, the company was debt-free with cash and cash equivalents totaling \$11.2 million.

**Inscap Corporation**  
**Summary of Consolidated Financial Results**  
**(Unaudited) (in thousands except EPS)**

|                                                             | <b>Three Months Ended July 31,</b> |             |               |
|-------------------------------------------------------------|------------------------------------|-------------|---------------|
|                                                             | <b>2015</b>                        | <b>2014</b> | <b>Change</b> |
| Sales                                                       | \$ 15,274                          | \$ 19,040   | -19.8%        |
| Gross profit                                                | 3,196                              | 5,097       | -37.3%        |
| Selling, general & administrative expenses                  | 6,288                              | 5,067       | 24.1%         |
| Unrealized gain on foreign exchange                         | (384)                              | (74)        |               |
| Increase (decrease) in fair value of derivative liabilities | 2,385                              | (1,014)     |               |
| Investment income                                           | (50)                               | (89)        |               |
| (Loss) income before taxes                                  | (5,043)                            | 1,207       |               |
| Income taxes                                                | 0                                  | 428         |               |
| Net (loss) income                                           | \$ (5,043)                         | \$ 779      |               |
|                                                             |                                    |             |               |
| Basic earnings per share                                    | \$ (0.35)                          | \$ 0.05     |               |
|                                                             |                                    |             |               |
| Weighted average number of shares (in thousands)            |                                    |             |               |
| for basic EPS calculation                                   | 14,381                             | 14,373      |               |
| for diluted EPS calculation                                 | 14,751                             | 14,409      |               |

## Financial Statements

<http://media3.marketwire.com/docs/inq0910cfs.pdf>

## First Quarter Call Details

Inscap will host a conference call at 8:30 AM EST on Friday, September 11, 2015 to discuss the company's quarterly results. To participate, please call 1-800-785-8944 five minutes before the start time. A replay of the conference call will also be available from September 11, 2015 after 10:30 AM EST until 11:59 PM EST on September 18, 2015. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21773905).

## **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 makes smart workspaces. For over a century, we have collaborated with our clients to provide customized solutions based on their individual needs. Our meticulously engineered system, storage and wall products provide unparalleled flexibility to create unique applications at a lower cost of ownership. Easy reconfiguration and seamless integration with other products means our smart applications will work today and tomorrow. And they look fabulous.

For more information, visit [www.inscapesolutions.com](http://www.inscapesolutions.com).

## **CONTACT:**

**Matthew Posno**  
Chief Financial Officer

T: 905 836 7676

F: 905 836 5037

Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

July 31, 2015 and 2014

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

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

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**  
(in thousands of Canadian dollars, except per share amounts)

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

**SUPPLEMENTAL INFORMATION**

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

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

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

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

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

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

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. Inscape serves its customers through a network of authorized dealers.

## **2. Statement of compliance**

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

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

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

## **3. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### **3.1 Critical estimates and judgments in applying accounting policies**

The following are the critical estimates and judgments that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### **Critical judgments:**

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

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

Identification of cash generating units for the purposes of performing impairment test of asset is based on management's judgment of what constitutes the lowest group of assets that can generate cash flows largely independent of other assets.

Determination of the functional currency of the Company's various reporting entities is based on management's judgment of the currency environment of each entity.

**Critical estimates:**

Estimated useful lives and residual values of intangible asset, property, plant and equipment are based on management's experience, the intended usage of the assets and the expected technological advancement that may affect the life cycle and residual values of the assets.

Defined benefit pension obligations are based on the management's best estimates on the long-term investment return on pension fund assets, the discount rate of obligations, mortality and the future rate of salary increase.

Liability for the Company's performance share units is based on the management's best estimates on the Company's financial performance during the vesting period of the performance share units.

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

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

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

#### **4. Future Accounting Policy Changes**

**IFRS 9 Financial Instruments:**

In July 2014, the IASB issued IFRS 9 (2014) – Financial Instruments ("IFRS 9"). IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow

characteristics of the financial assets and limited changes to the classification and measurement requirements for financial assets. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income (loss), unless this would create an accounting mismatch. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39 and introduces a new expected loss impairment model. IFRS 9 also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This amendment completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

#### IFRS 15 Revenue from Contracts with Customers:

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

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

## 5. Segment information

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

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

|                   |    | <b>Three Months Ended</b> |             |
|-------------------|----|---------------------------|-------------|
|                   |    | <b>July 31,</b>           |             |
|                   |    | <b>2015</b>               | <b>2014</b> |
| <b>Sales from</b> |    |                           |             |
| United States     | \$ | <b>14,154</b>             | 17,176      |
| Canada            |    | <b>1,120</b>              | 1,864       |
|                   | \$ | <b>15,274</b>             | \$ 19,040   |

The following is an analysis of the Company's revenue and results from continuing operations by reportable segments, which are identified on the basis of internal reports

about components of the Company that are regularly reviewed by the management in order to allocate resources to the segments and to assess their performance.

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

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

## 6. Earnings per share

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

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

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

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

## 7. Inventories

|                  | July 31,<br>2015 | April 30,<br>2015 |
|------------------|------------------|-------------------|
| Raw materials    | \$ 3,275         | \$ 3,092          |
| Work-in-progress | 350              | 285               |
| Finished goods   | 1,012            | 780               |
|                  | <b>\$ 4,637</b>  | <b>\$ 4,157</b>   |

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

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

## 8. Provisions

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

## 9. Financial instruments

### 9.1 Capital risk management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders through growth in earnings.

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

|                     | July 31,<br>2015 | April 30,<br>2015 |
|---------------------|------------------|-------------------|
| Issued capital      | \$ 52,868        | \$ 52,868         |
| Contributed surplus | 2,675            | 2,675             |
| Deficit             | (29,751)         | (24,708)          |
|                     | <b>\$ 25,792</b> | <b>\$ 30,835</b>  |

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.

## 9.2 Foreign currency risk management

The Company's activities expose it primarily to the financial risks of changes in the U.S. dollar exchange rates. The Company enters into a variety of derivative financial instruments to hedge the exchange rate risk arising on the anticipated sales of office furniture to the U.S. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by the Board on a regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

As at July 31, 2015, the Company had outstanding U.S. dollar hedge contracts with settlement dates from August 2015 to June 2017. The total nominal amounts under the contracts are U.S. \$32,000 to \$40,250 (July 31, 2014 - \$47,000 to \$56,500). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.04 CAD/USD to \$1.27 CAD/USD (July 31, 2014 - \$1.04 CAD/USD to \$1.095 CAD/USD). These contracts had a mark-to-market loss of \$6,330 (U.S. \$4,839), which was recognized on the consolidated statement of financial position as derivative liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the U.S. currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statement of operations as increase or decrease in fair value of derivative assets or liabilities of the period.

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

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

## Foreign currency sensitivity analysis

Based on the existing average U.S. currency hedge contract rates and the mix of U.S. dollar denominated sales and expenses for the three-month period ended July 31, 2015, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of approximately \$460 on the Company's pre-tax earnings (July 31, 2014 – \$22).

## 9.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company

manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the three-month period ended July 31, 2015, each 100 basis point variation in the market interest rate is estimated to result in a change of \$21 in the Company's investment income (July 31, 2014 - \$27).

#### **9.4 Credit risk management**

The Company's cash and cash equivalents, short-term investments, trade accounts receivable and derivative assets are subject to the risk that the counter-parties may fail to discharge their obligation to pay the Company. The Company's investment policy specifies the types of permissible investments, the minimum credit ratings required and the maximum balances allowed. The purchase of any securities carrying a credit rating below BBB for bonds or R1-Low for commercial paper is prohibited. Management reports to the Board of Directors quarterly the Company's investment portfolios to demonstrate their compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

#### **9.5 Liquidity risk management**

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

The Company is debt-free and has access to financing facilities which were unused at the end of the reporting period (July 2014: unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

#### **9.6 Fair value hierarchy**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| <b>July 31, 2015</b>          | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|-------------------------------|----------------|----------------|----------------|
| <b>Short-term investments</b> | \$ 6,951       | \$ -           | \$ -           |
| <b>Derivative liabilities</b> | -              | (6,330)        | -              |
|                               | \$ 6,951       | \$ (6,330)     | \$ -           |

  

| <b>April 30, 2015</b>         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|-------------------------------|----------------|----------------|----------------|
| <b>Short-term investments</b> | \$ 9,832       | \$ -           | \$ -           |
| <b>Derivative liabilities</b> | -              | (3,945)        | -              |
|                               | \$ 9,832       | \$ (3,945)     | \$ -           |

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

## 10. Other long-term obligations

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

|                        | <b>July 31, 2015</b> | <b>April 30, 2015</b> |
|------------------------|----------------------|-----------------------|
| Deferred Share Units   | \$ 244               | \$ 208                |
| Stock Options          | 825                  | 736                   |
| Restricted Share Units | 44                   | 32                    |
|                        | \$ 1,113             | \$ 976                |

## 11. Related party transactions

Compensation of key management personnel

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

|                                  | <b>Three Months Ended</b> |                        |
|----------------------------------|---------------------------|------------------------|
|                                  | <b>July 31,</b>           |                        |
|                                  | <b>2015</b>               | <b>2014 (restated)</b> |
| Salaries and short-term benefits | \$ 443                    | \$ 478                 |
| Post-employment benefits         | 5                         | 3                      |
| Share-based compensation         | 135                       | 124                    |
|                                  | \$ 583                    | \$ 605                 |

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

### **13. Contingent liability**

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses and a determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. There are no material contingent liabilities as at July 31, 2015 (July 31, 2014 – nil).