Inscape Corporation
Management's Discussion and Analysis
For the year ended April 30, 2018

The following Management's Discussion and Analysis ("MD&A") of operating results and financial condition of Inscape Corporation and its subsidiaries ("Inscape" or "the Company") for the year ended April 30, 2018 should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended April 30, 2018 and 2017.

The discussion and analysis are as of July 17, 2018 unless otherwise stated.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com or on our website www.inscapesolutions.com.

Non GAAP Measures

In this MD&A, reference is made to EBITDA, which is not a measure of financial performance under International Financial Reporting Standards ("IFRS"). Inscape calculates EBITDA as earnings before interest, taxes, depreciation and amortization with the exclusion of share-based compensation, severance and unrealized derivative and foreign exchange gains or losses. Management believes EBITDA is a useful measure that facilitates period-to-period operating comparisons and we believe some investors and analysts use it as well. This measure, as calculated by Inscape, does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other issuers.

Reference is also made to adjusted net income or loss before taxes which excludes derivative fair value adjustments, unrealized exchange gains or losses and non-recurring expenses. Management believes adjusted net income or loss is a useful measure that facilitates period-to-period operating comparisons. The adjusted net income or loss before taxes is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

Forward-looking Statements

This report includes certain forward-looking statements that are based on the Company's best information and judgments as at the date of this report. Readers are cautioned not to place undue reliance on forward-looking statements found throughout this document. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, assumptions about the rate of economic growth in North America, growth expectations for the contract office furniture business and currency fluctuations.

These forward-looking statements include known and unknown risks, uncertainties, assumptions and other factors which may cause actual results or achievements to be materially different from those expressed or implied. The forward-looking statements are subject to risks and uncertainties that may cause the actual results to differ materially from those anticipated in the discussion (see "Risks and Uncertainties" for more information).

While management believes that the expectations expressed by such forward-looking statements are reasonable, we cannot assure that they will be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors which could cause actual results or events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company will update its disclosure upon publication of each fiscal quarter's financial results and otherwise disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

Company Profile and Core Business

Inscape Corporation is a limited company incorporated in Ontario, Canada, with Class B common shares listed on the Toronto Stock Exchange (TMX). The Company's registered office and headquarters is at 67 Toll Road, Holland Landing, Ontario, Canada.

Inscape is a design enabler. We have been saying yes since 1888 with a versatile portfolio of systems, storage, and walls products that are adaptable, and always built to last. With a wide dealer network, showrooms in both Canada and the U.S., and full service and support for all of our clients, our philosophy is to always do what we can to say Yes.

The Company reports in two business segments: the Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Inscape Walls segment includes architectural and movable walls. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York. The Company also operated a West Elm Workspace office and distribution center in Grand Rapids, Michigan to the end of April 2018. The West Elm Workspace products will no longer be offered by Inscape after June 30th, 2018 as the distribution agreement has been terminated. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

Vision and Strategy

In fiscal 2018, Management implemented five key strategic initiatives which focus on building a strong foundation for future growth. These are:

1. Focus the Portfolio
2. Develop the Inscape Brand
3. Build Distribution
4. Improve Capacity Utilization
5. Build Capability

Focus the Portfolio: Invest in new product development in high growth and high profit product categories. Review existing portfolio of product categories to determine long term viability.

Develop the Inscape Brand: Develop unique selling proposition, increase awareness with Architects and Designers and improve the website experience.

Build Distribution: Focus investment in high opportunity and high margin markets. Continue to develop strong Dealer presence in these markets to drive sales growth. Increase proportion of larger customers which provide recurring annual sales.

Improve Capacity Utilization: Improve manufacturing efficiencies and other costs related to product fulfillment. Conduct product rationalization analysis to identify products that are either not profitable or have low sales volume.

Build Capability: Encompasses implementing business process improvements and technology to enhance performance and improving talent base.

In fiscal 2018, the company exited an unprofitable business unit which contributed $12.4 million in net sales however produced an EBITDA loss of $2.7 million. By reallocating resources to its core business, the company can focus on selling products which are more profitable.

Inscape also completed a study and developed a plan for its two plants to improve manufacturing efficiencies. The plan is being implemented and is expected to be completed in the second quarter of fiscal 2019 and generate annual savings in excess of $1.0 million. The company is currently evaluating further opportunities to improve manufacturing efficiencies, reduce fixed cost overheads and improve profitability.

These strategic initiatives are creating a strong foundation for growth of the Company. In fiscal 2018 we made progress on all five initiatives and we have started to see positive benefits from the initiatives and expect additional benefits in fiscal 2019.

Overview

Fiscal year 2018 compared to fiscal year 2017

Fiscal year 2018 sales decreased by $1.3 million or 1.4% compared to the prior year. Both the Furniture and Walls business units contributed to the decline in sales. In fiscal 2017, the Company benefited from 2 large non recurring projects totaling $5 million. If we normalize sales and exclude the non recurring sales, fiscal 2018 sales would have shown growth of 4% over the prior year which is in line with industry growth. The Company increased its investment in sales, marketing and product development initiatives to grow sales however the benefits from these investments will not be realized until fiscal 2019.

In fiscal year 2018, the Company incurred a net loss of $3.0 million or 21 cents per share, compared to a net loss of $0.2 million, or 1 cent per share a year ago. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2018 had an adjusted net loss before taxes of $5.3 million compared with last year's adjusted net income before taxes of $4.0 million. Losses incurred from an unprofitable business unit, unfavourable sales mix and incremental investments in sales, marketing and product development initiatives accounted for the majority of the increase in adjusted net loss.

Fiscal year 2017 compared to fiscal year 2016

Sales increased $ 15.4 million or 19.3% compared to fiscal year 2016 as a result of growth in all business segments and favourable U.S. currency hedge contracts rates**.** Sales growth in fiscal 2017 driven by two large non recurring projects totalling $5 million.

In fiscal year 2017, the company incurred a net loss of $0.2 million or 1 cent per share, compared to a net loss of $1.3 million or 9 cents per share a year ago. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2017 had an adjusted net income of $3.3 million, compared with previous year adjusted net loss of $5.0 million, an improvement of $ 8.3 million mainly due to higher sales volume, favourable US currency hedge rates and favourable sales mix.

Financial Highlights

(in thousands, except for per share amounts)

	Three Months Ended April 30			
		2018		2017
Sales	**$**	**21,514**	$	21,023
Net loss	**$**	**(4,788)**	$	(2,087)
Basic and diluted loss per share	**$**	**(0.33)**	$	(0.15)
Adjusted net (loss) before taxes	**$**	**(3,899)**	$	(881)
EBITDA	**$**	**(2,751)**	$	(196)

	Years Ended April 30			
		2018		2017
Sales	**$**	**93,936**	$	95,295
Net loss	**$**	**(2,992)**	$	(172)
Basic and diluted loss per share	**$**	**(0.21)**	$	(0.01)
Adjusted net (loss) income before taxes	**$**	**(5,334)**	$	4,041
EBITDA	**$**	**(2,454)**	$	6,622
Total assets	**$**	**44,582**	$	46,870
Total liabilities	**$**	**18,255**	$	19,066
Weighted average number of shares for basic and diluted EPS		**14,380,701**		14,380,701
Cash, cash equivalents and short-term investments	**$**	**8,994**	$	11,514

Results of Operations

Sales

(in thousands)		**Fiscal 2018**		Fiscal 2017	Change
Three Months Ended April 30	**$**	**21,514**	$	21,023	2.4%
Years Ended April 30	**$**	**93,936**	$	95,295	-1.4%

Sales in the fourth quarter were 2.4% higher than the same quarter of last year. Strong Walls sales in the quarter accounted for the majority of the increase.

The fiscal 2018 annual sales of $93.9 million were 1.4% lower than the previous year's sales of $95.3 million. The decrease of $1.4 million in sales occurred equally in the Furniture and Walls business units.

Gross Profit

(in thousands)		**Fiscal 2018**	**% of sales**		Fiscal 2017	% of sales
Three Months Ended April 30	**$**	**$4,896**	**22.8%**	$	5,564	26.5%
Years Ended April 30	**$**	**$25,163**	**26.8%**	$	28,549	30.0%

The fourth quarter gross profit as a percentage of sales of 22.8% was 3.7 percentage points lower than the same quarter of last year. Unfavourable sales mix and increase in product fulfillment costs contributed to the decline.

Fiscal year 2018 gross profit as a percentage of sales decreased 3.2 percentage points from last year's 30.0% to the current year's 26.8%. Higher operating costs associated with an unprofitable business unit, unfavourable sales mix and incremental investments in sales, marketing and product development initiatives accounted for the majority of the decline.

Selling, General & Administrative Expenses (SG&A)

(in thousands)		**Fiscal 2018**	**% of sales**		Fiscal 2017	% of sales
Three Months Ended April 30	**$**	**$8,589**	**39.9%**	$	5,992	28.5%
Years Ended April 30	**$**	**$30,840**	**32.8%**	$	26,332	27.6%

SG&A for the quarter was 39.9% of sales, compared with last year's 28.5%. The current quarter SG&A of $8.6 million was $2.6 million higher than the same quarter of last year due to costs associated with an unprofitable business unit, severance and incremental investments in marketing, sales coverage and supply chain initiatives.

SG&A for the year was 32.8% of sales versus 27.6% last year. The SG&A expense of $30.8 million was $4.5 million or 17.1% higher than last year, mainly due to incremental investments in marketing, sales coverage and supply chain initiatives.

Net loss

(in thousands)		**Fiscal 2018**	**% of sales**		Fiscal 2017	% of sales
Three Months Ended April 30	**$**	**(4,788)**	**-22.2%**	$	(2,087)	-9.9%
Years Ended April 30	**$**	**(2,992)**	**-3.2%**	$	(172)	-0.2%

The fourth quarter net loss of $4.8 million is higher than the net loss of $2.1 million in the same quarter of last year. Both reporting periods had several unrealized, unusual and non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these items, the fourth quarter of fiscal 2018 had an adjusted net loss before taxes of $3.9 million, compared with adjusted net loss before taxes of $0.9 million in the same quarter of last year. The adjusted net loss before taxes of $3.9 million in the quarter is inclusive of $1.2 million of incremental investment in sales, marketing and product development. The quarter also included costs to exit an unprofitable business unit.

Fiscal year 2018 ended with a net loss of $3.0 million, compared to a net loss of $0.2 million in fiscal year 2017. Similar to the quarterly results, both reporting periods had several unrealized, unusual and mostly non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these unusual items, the full year fiscal 2018 had an adjusted net loss before taxes of $5.3 million compared to adjusted net income before taxes of $4.0 million in the prior year. The adjusted full year net loss before taxes of $5.3 million is inclusive of incremental investment in sales, marketing and product development of $2.7 million and losses attributable to an unprofitable business unit.

The adjusted income or loss is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

The following is a reconciliation of net income and loss before taxes calculated in accordance with GAAP to the non-GAAP measure:

	Three Months Ended April 30				Years Ended April 30			
(in thousands)		**2018**		2017		**2018**		2017
Net loss before taxes	$	**(5,205)**	$	(2,087)	$	**(3,409)**	$	(172)
adjust non-operating or unusual items:								
Unrealized loss (gain) on derivatives		**1,809**		1,937		**(2,566)**		2,923
Unrealized (gain) loss on foreign exchange		**(287)**		(255)		**363**		(405)
(Increase) Decrease in fair value of short-term investments		**20**		(32)		**20**		(150)
Stock based compensation		**(342)**		(507)		**(635)**		1,556
Severance obligation		**106**		63		**893**		297
Adjusted net (loss) income before taxes	$	**(3,899)**	$	(881)	$	**(5,334)**	$	4,049

Income Tax

In accordance with IFRS requirements, deferred tax benefits relating to tax loss carry-forward were not recognized during fiscal 2018. See notes to the consolidated financial statements which includes a reconciliation of the income tax expense and valuation allowance.

Investment Income

The Company earned interest income and dividends from short-term investments of its excess cash in money market instruments and preferred shares. The investments generated investment income of $0.1 million in fiscal year 2018 and fiscal year 2017.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the previous eight quarters from July 31, 2016 through April 30, 2018 is provided below:

Selected Quarterly information
(in thousands, except per share amounts)
(Unaudited)

	Quarters Ended			
	April 30, 2018	**January 31, 2018**	**October 31, 2017**	**July 31, 2017**
Sales	**$ 21,514**	**$ 25,906**	**$ 23,209**	**$ 23,307**
Gross profit	**$ 4,896**	**$ 7,009**	**$ 6,065**	**$ 7,193**
Gross profit %	**22.8%**	**27.1%**	**26.1%**	**30.9%**
Net (loss) income	**$ (4,788)**	**$ 1,300**	**$ (2,562)**	**$ 3,058**
Basic and diluted (loss) income per share	**$ (0.33)**	**$ 0.09**	**$ (0.18)**	**$ 0.21**
Adjusted net (loss) income before taxes	**$ (3,899)**	**$ (286)**	**$ (734)**	**$ (415)**
EBITDA	**$ (2,751)**	**$ 292**	**$ (158)**	**$ 163**

	Quarters Ended			
	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016
Sales	$ 21,023	$ 23,161	$ 27,543	$ 23,569
Gross profit	$ 5,564	$ 7,018	$ 9,116	$ 6,851
Gross profit %	26.5%	30.3%	33.1%	29.1%
Net (loss) income	$ (2,087)	$ 1,846	$ 1,596	$ (1,527)
Basic and diluted (loss) income per share	$ (0.15)	$ 0.13	$ 0.11	$ (0.11)
Adjusted net (loss) income before taxes	$ (881)	$ 1,790	$ 2,952	$ 188
EBITDA	$ (196)	$ 2,417	$ 3,612	$ 797

Quarterly earnings per share may not add up to year-to-date earnings per share due to rounding

Liquidity and Capital Resources

Cash Flow Summary (in thousands)

Three Months Ended April 30,	**Fiscal 2018**	Fiscal 2017
Net cash flow generated from (used in):		
Operating activities before changes in working capital	**$ (2,951)**	$ (988)
Net change in working capital	**2,953**	2,197
Investing activities	**(510)**	614
Foreign exchange gain on cash and cash equivalents	**212**	216
Net (decrease) increase in cash and cash equivalents	**(296)**	2,039
Cash and cash equivalents, beginning of period	**5,676**	5,197
Cash and cash equivalents, end of period	**$ 5,380**	$ 7,236

Twelve Months Ended April 30,	**Fiscal 2018**	Fiscal 2017
Net cash flow generated from (used in):		
Operating activities before changes in working capital	**$ (3,942)**	$ 5,405
Net change in working capital	**3,160**	(3,203)
Investing activities	**(688)**	(1,370)
Foreign exchange (loss) gain on cash and cash equivalents	**(386)**	415
Net (decrease) increase in cash and cash equivalents	**(1,856)**	1,247
Cash and cash equivalents, beginning of year	**7,236**	5,989
Cash and cash equivalents, end of year	**$ 5,380**	$ 7,236

The fourth quarter cash outflow from operations (before changes in working capital) was $2.9 million compared to the previous year outflow of $1.0 million. Higher operating losses from an unprofitable business unit and incremental investments in SG&A resulted in the outflow from operations. Net increase in working capital of $2.9 million consisted primarily of higher accounts receivable due to increased sales activity at the end of the fourth quarter. Cash outflow of $0.5 million from investing activities was comprised of capital expenditures.

On an annual basis, fiscal 2018 cash outflow from operations (before changes in working capital) was $3.9 million, compared to a cash inflow of $5.4 million in the previous year. Higher operating losses primarily from an unprofitable business unit and incremental investments in SG&A accounted for the majority of the outflow. Net increase in working capital of $3.2 million consisted of higher accounts payable due to raw material purchases to fund increase in sales. Cash outflow of $0.7 million from investing activities consisted of $1.4 million spend in capital expenditures partially offset by $0.7 million funding from money market instruments.

Credit Facility

The Company has a demand operating credit facility of $10 million and a demand credit facility for foreign exchange contracts of US $10 million with its bank. The interest rate on the demand operating credit facility is Prime Rate plus 0.25% for Canadian dollar loans, US Base Rate plus 0.25% for US dollar loans and 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's personal property.

The credit facility agreement has the following covenants:

1. The ratio of "total liabilities less postponed debt to shareholders' equity less intangible assets" does not exceed 1.4 to 1.0, measured quarterly.

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

The Company was in compliance with the covenants as at April 30, 2018.

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

Contractual Obligations

The following is a summary of the Company's contractual obligations as at April 30, 2018:

		Payments due by period			
(in millions)	Total	1 year or less	1-3 years	3-5 years	After 5 years
Operating leases	$ 6.1	$ 1.3	$ 2.8	$ 0.9	$ 1.1
Foreign exchange contracts	57.2	47.7	9.5	-	-
	$ 63.3	49.0	12.3	0.9	$ 1.1

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

Off-Balance Sheet Arrangements
The Company does not have any off-balance sheet arrangements other than the ones discussed above.

Share Capital
The Company has 5,345,881 Class A multiple voting shares and 9,034,820 Class B subordinated voting shares outstanding at April 30, 2018. The Class A multiple voting shares carry ten votes each. The Class B subordinated voting shares, which are listed on the Toronto Stock Exchange, carry one vote each.

On July 11, 2018 one of the Company's shareholders, Bhayana management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis. Post conversion there are 3,345,881 Class A Multiple Voting Shares and 11,034,820 Class B Subordinated Voting Shares of Inscape Corporation issued and outstanding.

Related Party Transactions
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 April 30		Years Ended April 30	
(in thousands)	**2018**	2017	**2018**	2017
Salaries and short-term benefits	**$ 758**	$ 466	**$ 2,370**	$ 2,013
Post-employment benefits	**11**	5	**32**	16
Share-based compensation	**(343)**	(438)	**(510)**	1,377
	$ 426	$ 33	**$ 1,892**	$ 3,406

During the year, the Company incurred expenses of $42 (2017 - $166) to a former related party for goods and services. The negative position of the share-based compensation has resulted from the decline in share price.

Future Accounting Changes

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.

In preparation for adoption of the standard, Inscape has completed its assessment of the implications of implementing the new standard, and has concluded there will be no material transitional adjustment and the new standard will not have a significant impact on its consolidated financial statements. Inscape will adopt the standard beginning May 1, 2018.

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. IFRS 15 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. The standard provides a single, principle based five step model for recognizing revenue that applies to revenue earned from a contract with a customer. IFRS 15 also contains enhanced disclosure requirements including qualitative disclosures showing disaggregation of total revenue, information about performance obligations, and key judgments and estimates made.

Inscape will be implementing IFRS 15, using the modified retrospective approach where IFRS 15 will be applied to the 2019 results beginning May 1, 2018. With the exception of additional note disclosures, there is no significant impact to the Financial Statements as a result of adopting this standard.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, specifying the recognition, measurement, presentation and disclosure requirements of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and though permitted, has not been adopted early.

Significant Accounting Policies and Estimates

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

Critical judgments

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

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

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

Reserve for warranty is based on management's judgment, review of any known exposures and historical claim experience.

Percentage of Completion percentages are based on Inscape's onsite project management estimate of job progress.

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.

Financial Instruments

The Company's cash and cash equivalents, short-term investments, trade accounts receivable and derivative assets are subject to the risk that the counter-parties may fail to discharge their obligation to pay the Company. The Company's investment policy specifies the types of permissible investments, the minimum credit ratings required and the maximum balances allowed. The purchase of any securities carrying a credit rating below BBB for bonds or R1-Low for commercial paper is strictly prohibited. Management reports to the Board of Directors quarterly the Company's investment portfolios to show their compliance with the investment policy. The counterparty of the Company's derivatives is a major Canadian bank. The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing of credit limits, monitoring the aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. The Company has historically experienced minimal customer defaults on trade accounts receivable.

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

As at April 30, 2018, the Company had outstanding U.S. dollar hedge contracts with settlement dates from May 2018 to August 2019. The total notional amounts under the contracts are U.S. $35,700 to $44,675 (2017 - $48,000 to $60,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.24 CAD/USD to $1.45 CAD/USD (2017 - $1.25 CAD/USD to $1.45 CAD/USD). These contracts had a mark-to-market unrealized gain of $349 (U.S. $272) as at April 30, 2018 (2017 – unrealized loss of $2,217 or US $1,624), 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.

Risks and Uncertainties

The following risks and uncertainties may adversely affect the Company's business, operating results, cash flows and financial condition. These may not be the Company's only risks and uncertainties. Other unknown or currently insignificant risks and uncertainties not discussed below can have an adverse impact on the Company's business and financial performance.

General economic and market conditions

Demand for office furniture is sensitive to general economic conditions such as the white-collar employment rate, corporate growth and profitability, government spending, office relocations and commercial property development. The Company manages to moderate the impact of this risk by increasing the differentiation of our products to attract new customers, the launching of new products to gain market share and enhancing the coverage of customers and designers.

Competitive environment

Office furniture is a mature and highly competitive industry. Our main competitors include global companies with strong brand name recognition and capability to utilize offshore outsourcing. This competitive environment results in price pressure and limits certain distributors' ability to carry Inscape products along with those of the competitors. The Company competes on product design, functionality, innovation and customer service. Our success will depend on building a distribution network that is aligned with Inscape, targeting committed dealers who lead with Inscape's product lines and automating processes to keep improving our productivity, quality and customer service.

Raw material and commodity costs

Fluctuations in raw material and commodity prices could have a significant impact on the Company's cost of sales and operating results. Since most of the raw materials and commodities used by the Company are not unique to the office furniture industry, their costs are often affected by supply and demand in other industries and countries. As a result, the Company may experience rising raw material and commodity costs that cannot be recovered from customers in a highly competitive environment. The Company manages its manufacturing costs by locking in supply contract prices, improving production yields, reducing spoilage, focusing on quality control and overseas sourcing, where appropriate.

U.S. dollar exchange rate

The U.S. is the main market for the Company. Fluctuations in the U.S./Canadian dollar exchange rate have a significant impact on the operating results, cash flows and financial condition of the Company. One method the Company uses to manage its foreign currency exposure is through the use of U.S. dollar hedge instruments. The hedge instruments provide the Company with an opportunity to lock in the U.S. currency conversion rate at a prevailing hedge rate to facilitate the business planning process with pre-determined exchange rate exposure. However, the instruments do not completely eliminate the effects of exchange rate fluctuations. To minimize the effect of exchange rate fluctuations, the Company endeavors to create natural hedges through increasing U.S. suppliers where appropriate and seeks to increase Canadian dollar sales.

Access to the U.S. markets

The Company depends heavily on unrestricted access to the U.S. markets as a significant portion of the Company's sales is derived from there. The Company's business, operating results, cash flows and financial condition will be seriously affected if access to the U.S. markets is restricted due to political, social, economic or regulatory reasons. Buy America sentiment and regulations may deny the Company's chance in bidding contracts, especially with the government. The Company needs to monitor closely developments in various U.S. statutes, regulations, procurement requirements and border crossing restrictions. Where appropriate, the Company publicizes its extensive investment in the U.S. and contribution to the economy by operating a production plant in New York State, providing employment opportunities in different states and purchasing from U.S. suppliers.

Effectiveness of market representatives

The Company relies on the effectiveness of independent market representatives to market our products to customers. A market representative may choose to terminate its relationship with us or the effectiveness of a market representative may decline. Disruption of the relationship or transition of an underperforming representative could have an adverse impact on our business in the affected market. The Company manages this risk by maintaining strong connection to performing representatives at the regional senior management level. The Company also assesses the effectiveness of the representatives on a regular basis.

Effectiveness of growth strategy implementation

The Company seeks to grow its business and market share by building committed distribution, developing products and applications to meet customer needs, and providing visualization tools to assist designers and clients with solutions for workspaces. Effective implementation of these strategies is essential to the future growth of the Company. The Company's sales and results of operations will be adversely affected if there are delays or difficulties in carrying out the strategies.

Controls and Procedures

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of DC&P and have found that the Company's DC&P are effective at the financial year end.

Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of ICFR and have found that the Company's ICFR is effective in design and operation at the financial year end.

During the three months ended April 30, 2018, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.