Interim Condensed Consolidated Financial Statements

INSCAPE CORPORATION

(Unaudited)

July 31, 2018 and 2017

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

	Note	As at July 31, 2018	As at April 30, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**$ 2,913**	$ 5,380
Short-term investments		**3,117**	3,614
Trade and other receivables	3	**12,089**	12,002
Inventories	4	**6,326**	6,741
Income taxes receivable		**20**	23
Prepaid expenses		**1,218**	927
Fair value of derivative financial assets	5.2	**218**	547
		25,901	29,234
Non-current assets			
Property, plant and equipment		**14,186**	13,924
Intangible assets		**1,341**	1,414
Fair value of derivative financial assets	5.2	**3**	10
		15,530	15,348
TOTAL ASSETS		**$ 41,431**	$ 44,582
LIABILITIES			
Current liabilities			
Trade and other payables		**$ 13,251**	$ 14,022
Fair value of derivative financial liabilities	5.2	**373**	127
Provisions		**314**	328
		13,938	14,477
Non-current liabilities			
Provisions		**875**	591
Fair value of derivative financial liabilities	5.2	**167**	81
Retirement benefit obligation		**2,881**	2,839
Other long-term obligations		**302**	267
		4,225	3,778
TOTAL LIABILITIES		**18,163**	18,255
SHAREHOLDERS' EQUITY			
Shareholders' capital	6	**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive income (loss)		**56**	(90)
Deficit		**(32,331)**	(29,126)
TOTAL SHAREHOLDERS' EQUITY		**23,268**	26,327
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 41,431**	$ 44,582

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

Approved by the Board of Directors,

(signed)
Bartley Bull
Chairman

(signed)
Eric Ehgoetz
Director

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the first quarter ended July 31
(unaudited)
(in thousands of Canadian dollars, except where indicated and per share amounts)

	Note	2018	2017
Sales	8	**$ 21,226**	$ 23,307
Cost of goods sold	9	**15,734**	16,114
GROSS PROFIT		**5,492**	7,193
EXPENSES			
Selling, general and administrative	9	**8,019**	7,804
Unrealized loss on foreign exchange		**316**	457
Unrealized loss (gain) on derivatives	5.2	**668**	(4,103)
Gain on sale of property, plant and equipment		**(32)**	-
Gain on sale of intangible		**(263)**	-
Investment income		**(11)**	(23)
		8,697	4,135
(Loss) Income before taxes		**(3,205)**	3,058
Income tax (recovery)	12		
Current		**-**	-
Deferred		**-**	-
		-	-
NET (LOSS) INCOME		**$ (3,205)**	$ 3,058

	Note	2018	2017
Net earnings (loss) per share available to shareholders	7		
Basic		**$ (0.22)**	$ 0.21
Diluted		**$ (0.22)**	$ 0.21

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the first quarter ended July 31

(unaudited)

(in thousands of Canadian dollars)

	Note	2018	2017
NET (LOSS) INCOME		**$ (3,205)**	$ 3,058
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to earnings			
Exchange gain (loss) on translating foreign operations		**146**	(633)
Other comprehensive income (loss)		**146**	(633)
TOTAL COMPREHENSIVE (LOSS) INCOME		**$ (3,059)**	$ 2,425

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Cumulative Remeasurement of Defined Benefit Liabilities	Cumulative Translation Gain (Loss)	Deficit	Total Shareholders' Equity
Balance, April 30, 2018	**$ 52,868**	**$ 2,675**	**$ (979)**	**$ 889**	**$ (29,126)**	**$ 26,327**
Net loss	-	-	-	-	(3,205)	(3,205)
Other Comprehensive income (loss)	-	-	-	146	-	146
Balance, July 31, 2018	**$ 52,868**	**$ 2,675**	**$ (979)**	**$ 1,035**	**$ (32,331)**	**$ 23,268**
Balance, April 30, 2017	$ 52,868	$ 2,675	$ (2,932)	$ 1,327	$ (26,134)	$ 27,804
Net income	-	-	-	-	3,058	3,058
Other Comprehensive loss	-	-	-	(633)	-	(633)
Balance, July 31, 2017	$ 52,868	$ 2,675	$ (2,932)	$ 694	$ (23,076)	$ 30,229

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

INSCAPE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the first quarter ended July 31

(unaudited)

(in thousands of Canadian dollars)

	Note	2018	2017
Net inflow (outflow) of cash related to the following activities:			
OPERATING			
Net (loss) income		**$ (3,205)**	$ 3,058
Items not affecting cash			
Amortization and depreciation		**488**	601
Pension expense		**142**	140
Unrealized loss (gain) on derivatives	5.2	**668**	(4,103)
Share based compensation		**35**	(267)
Unrealized loss on foreign exchange		**312**	457
Gain on sale of property, plant and equipment		**(32)**	-
Gain on sale of intangible		**(263)**	-
Employer's contribution to pension funds		**(131)**	(101)
Cash (used for) operating activities before non-cash working capital		**(1,986)**	(215)
Movements in non-cash working capital			
Trade and other receivables		**70**	(4,369)
Inventories		**446**	(1,063)
Prepaid expenses		**(282)**	(22)
Accounts payable and accrued liabilities		**(815)**	4,746
Provisions		**263**	-
Income tax receivables and payables		**3**	(8)
Cash (used for) operating activities		**(2,301)**	(931)
INVESTING			
Short-term investments held for trading		**497**	(1,358)
Additions to property, plant and equipment & intangible assets		**(635)**	(347)
Cash (used for) investing activities		**(138)**	(1,705)
Unrealized foreign exchange (loss) on cash and cash equivalents		**(28)**	(470)
Net cash (outflow)		**(2,467)**	(3,106)
Cash and cash equivalents, beginning of period		**5,380**	7,236
Cash and cash equivalents, end of period		**$ 2,913**	$ 4,130
Cash and cash equivalents consist of:			
Cash		**$ 2,913**	$ 2,800
Cash equivalents		**-**	1,330
		$ 2,913	$ 4,130

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

1. GENERAL INFORMATION

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

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

The Company reports in two business segments, Office Furniture and Inscape Walls. The Office Furniture segment includes storage, benching, systems, seating solutions and West Elm Workspace products. The Inscape Walls segment includes architectural and movable walls. The West Elm Workspace products are no longer offered by Inscape after June 29th, 2018 as the partnership has ended. Currently the Company's head office is located in Holland Landing, Ontario. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance with IFRS
These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements, except for the application of new and revised IFRSs described below under section 2.3. These consolidated financial statements were prepared on a going concern assumption using the historical cost basis except for financial instruments. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 12, 2018.

The interim consolidated financial statements are presented in Canadian dollars, the functional currency of Inscape, and all values are rounded to the nearest thousands, except where indicated. Certain comparative amounts have been restated to conform to the presentation adopted in the current period.

2.2 Basis of preparation
The consolidated financial statements include the accounts of Inscape and its two wholly owned US subsidiaries, Inscape Inc. and Inscape (New York) Inc. Subsidiaries are consolidated from the date of acquisition and control, and continue to be consolidated until the date that such control ceases. Inscape controls an entity when Inscape is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.3 Application of new and revised IFRSs
The Company has adopted a number of new standards which were effective from May 1, 2018 that do not have a material impact on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements.

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

The Company adopted the standard effective May 1, 2018 using the modified retrospective approach, which resulted in no adjustment to opening retained earnings. Comparative information has not been restated and continues to be reported under previous accounting standards. After completing the analysis of its customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of retained earnings, however IFRS 15 does impact the accounting for the Company's dealer incentive programs.

The costs of incentive programs were previously presented within Selling, general and administrative expenses, are now presented as a reduction of revenue.

The following table shows the effect of the adoption of IFRS 15 on the Company's interim condensed consolidated statement of operations for the three months ended July 31, 2018:

		For the three months ended July 31, 2018 (Reported)		Balances without adoption of IFRS 15		Effect of change higher (lower)
Sales	**$**	**21,226**	$	21,384	$	(158)
Gross Profit		**5,492**		5,650		(158)
Selling, general and administrative		**8,019**		8,177		(158)
(Loss) before taxes		**(3,205)**		(3,205)		-

As a result of adopting IFRS 15, the Company updated its accounting policies for recognition of revenue relating to the sale of goods and the Company's dealer incentive programs:

Revenue Recognition

Sale of manufactured goods

The majority of the Company's revenue is generated from sales and installation of manufactured goods to customers through a dealer network. The revenue is recognized when the goods are shipped for manufactured goods. For installation, revenue is recognized on a % of completion based on physical stage of completion of the contract. Revenue from the sale of manufactured goods and installation is measured at fair value of the consideration received less applicable sales taxes, discounts, rebates and dealer incentives.

Dealer incentives

The Company offers a variety of incentives to its dealer base to support sales initiatives. An obligation arises from the incentives when the Company sells manufactured goods and/or installations through the dealer network. The obligation is measured at fair value of the incentive earned. The dealer incentives are recorded as a reduction to Revenue in the interim Consolidated Statement of Income.

IFRS 9 Financial Instruments

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted IFRS 9, Financial Instruments effective May 1, 2018 with no significant impact on the Company's condensed consolidated interim financial statements.

IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2, Share Based Payments. The amendment is intended to clarify the estimation of the fair value of cash settled share based payments. The Company adopted the amendments to IFRS 2, Share Based Payments, effective May 1, 2018 with no significant impact on the Company's condensed consolidated interim financial statements.

2.4 Accounting standards issued but not yet adopted

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.

3. TRADE AND OTHER RECEIVABLES

		As at July 31, 2018		As at April, 30, 2018
Trade account receivables, gross	**$**	**11,955**	$	12,061
Provision for bad and doubtful debts		**(452)**		(312)
		11,503		11,749
Other receivables		**586**		253
	$	**12,089**	$	12,002

An aging analysis of trade receivables past due is as follows:

		As at July 31, 2018		As at April, 30, 2018
1-30 days	**$**	**2,675**	$	3,511
31-60 days		**1,470**		1,201
61-90 days		**1,203**		891
> 90 days		**957**		890
	$	**6,305**	$	6,493

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

4. INVENTORIES

		As at July 31, 2018		As at April 30, 2018
Raw materials	**$**	**4,994**	$	4,595
Work-in-progress		**474**		409
Finished goods		**858**		1,737
	$	**6,326**	$	6,741

The cost of inventories recognized as cost of goods sold was $14,446 for the first quarter ended July 31, 2018 (2017 - $14,884). During the quarter, there was an inventory write-down of $15 (2017 - nil).

5. FINANCIAL INSTRUMENTS

5.1 Capital risk management

The Company's objective 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 loss as summarized in the following table:

		As at July 31, 2018		As at April 30, 2018
Issued capital	**$**	**52,868**	$	52,868
Contributed surplus		**2,675**		2,675
Deficit		**(32,331)**		(29,126)
	$	**23,212**	$	26,417

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.

See note 10-Credit Facility for a description of the Company's externally imposed covenants.

5.2 Foreign currency risk management

The Company's activities expose it primarily to the financial risks of changes in the US dollar exchange rates. The Company enters into a variety of derivative financial instruments to hedge the exchange rate risk arising on the anticipated sales to the US. 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, 2018, the Company had outstanding US dollar hedge contracts with settlement dates from August 2018 to November 2019. The total notional amounts under the contracts are US $36,000 to $45,150 (2017 - $40,800 to $51,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell US 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 loss of $316 (US $245) as at July 31, 2018 (2017 – unrealized gain of $1,886 or US $1,512), 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 US currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statement of operations as unrealized gain or loss on derivatives of the year.

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

There were realized losses of $90 on the settlement of contracts during the first quarter ended July 31, 2018 (2017- realized gains of $364).

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

		As at July 31, 2018		As at July 31, 2017
Fair value of derivative assets (liabilities), beginning of period	**$**	**349**	$	(2,217)
Changes in fair value during the period:				
Decrease in fair value of new contracts added		**(532)**		-
Reversal of derivative assets (liabilities) of contracts settled		**(90)**		364
Increase (decrease) in fair values of outstanding contracts		**(46)**		3,739
Net increase (decrease) in fair value of derivative assets recognized during the period		**(668)**		4,103
Fair value of derivative assets (liabilities), end of period	**$**	**(319)**	$	1,886
Current	**$**	**(155)**	$	1,226
Long-term		**(164)**		660
	$	**(319)**	$	1,886

5.3 Foreign currency sensitivity analysis

Based on the existing average US currency hedge contract rates and the mix of US dollar denominated sales and expenses for the first quarter ended July 31, 2018, a 1% change in the Canadian dollar against the US dollar would have an impact of approximately $62 on the Company's pre-tax earnings (2017 – $117).

Based on the US dollar denominated assets and liabilities as at July 31, 2018, a 1% change in the Canadian dollar against the US dollar would have an impact of $113 on the unrealized exchange gain or loss reported in the Consolidated Statements of Operations (2017 - $49) and an impact of $232 on the Consolidated Statements of Comprehensive Income (Loss) (2017 - $215).

5.4 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 first quarter ended July 31, 2018, each 100 basis point variation in the market interest rate is estimated to result in a change of $8 in the Company's investment income (2017 - $14).

5.5 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. As at July 31, 2018, the Company's maximum direct exposure to credit risk is $18,559 (April 30, 2018 - $ 21,543).

The Company's investment policy specifies the types of permissible investments, the credit ratings required and the maximum balances allowed. The purchase of any securities carrying a credit rating below BBB for bonds or R1- Low for commercial paper is prohibited. On a quarterly basis, management reviews the Company's investment portfolio with the Audit Committee to demonstrate compliance with the investment policy. The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at July 31, 2018, the allowance for doubtful accounts was $452 (April 30, 2018 - $312).

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

The Company is debt-free and has access to financing facilities which were unused at the end of the reporting period (2017 - unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

5.7 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).

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at July 31, 2018:

	Level 1	Level 2	Level 3
Short-term investments	**$ -**	**$ 3,117**	**$ -**
Derivative financial (liabilities)	**-**	**(319)**	**-**
Total net financial assets	**$ -**	**$ 2,798**	**$ -**

The following table illustrates the classification of financial assets (liabilities) in the fair value hierarchy as at April 30, 2018:

	Level 1	Level 2	Level 3
Short-term investments	$ -	$ 3,614	$ -
Derivative financial assets	-	349	-
Total net financial assets	$ -	$ 3,963	$ -

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

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

6. ISSUED CAPITAL

Authorized
7,670,881 Class A multiple voting shares, 10 votes per share
Unlimited Class B subordinated voting shares, 1 vote per share

	As at	As at
Issued and outstanding	**July 31, 2018**	April 30, 2018
Class A multiple voting	**3,345,881**	5,345,881
Class B subordinated voting	**11,034,820**	9,034,820
	14,380,701	14,380,701

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.

7. LOSS PER SHARE

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

		July 31, 2018		July 31, 2017
Net (loss) income	$	**(3,205)**	$	3,058
Weighted average number of shares outstanding basic		**14,380,701**		14,380,701
Dilution impact of stock options		**11,204**		65,070
Weighted average number of shares outstanding diluted		**14,391,905**		14,445,771
Basic and diluted (loss) income per share	$	**(0.22)**	$	0.21

Stock options are anti-dilutive and are, therefore, not included in the computation of basic and diluted loss per share for first quarters ended July 31, 2018 and 2017.

8. SEGMENTED REPORTING

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

The following is an analysis of the Company's revenue and results from continuing operations by reportable segments:

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

	Three months ended July 31			
		2018		2017
Segmented Sales				
Furniture	**$**	**14,570**	$	16,692
Walls		**6,656**		6,615
	$	**21,226**	$	23,307

	Three months ended July 31			
		2018		2017
Segmented (Loss) Income				
Furniture	**$**	**(1,552)**	$	(844)
Walls		**(975)**		233
		(2,527)		(611)
Unrealized (loss) on foreign exchange		**(316)**		(457)
Unrealized (loss) gain on derivatives		**(668)**		4,103
Gain on sale of property, plant and equipment		**32**		-
Gain on sale of intangible		**263**		
Investment income		**11**		23
Net (loss) income before taxes		**(3,205)**		3,058
Income taxes		**-**		-
Net (loss) income	**$**	**(3,205)**	$	3,058

9. SUPPLEMENTAL INFORMATION

9.1 Salaries, wages and benefits

	Three months ended July 31			
		2018		2017
Included in:				
Cost of goods sold	**$**	**3,740**	$	4,024
Selling, general and administrative		**4,118**		3,210
	$	**7,858**	$	7,234

9.2 Amortization and depreciation

	Three months ended July 31			
		2018		2017
Included in:				
Cost of goods sold	**$**	**244**	$	292
Selling, general and administrative		**244**		309
	$	**488**	$	601

10. CREDIT FACILITY

The Company has a demand operating credit of $10,000 and a demand credit for foreign exchange contracts of US $10,000 with its bank. The interest rate on the demand operating credit facility is Prime Rate plus 0.25%

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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 at any time, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.50 to 1.0, measured quarterly.

The Company is in compliance with these covenants as at July 31, 2018 (2017 – in compliance).

As at July 31, 2018, the Company has not drawn on the demand operating credit and the demand credit for foreign exchange contracts (2017 – not drawn).

11. 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 July 31, 2018	Three Months Ended July 31, 2017
Salaries and short-term benefits	**$ 533**	$ 529
Post-employment benefits	**12**	4
Share-based compensation	**57**	362
	$ 602	$ 895

12. INCOME TAXES

At the previous fiscal year ended April 30, 2018, the Company recorded a valuation allowance of $3,850 to derecognize the future income tax benefit of loss carry forwards as deferred tax assets.

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, 2018 (2017 – none).

14. COMPARATIVE FINANCIAL STATEMENTS

Certain figures in the comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the current period's Financial Statements.