Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

January 31, 2014 and 2013

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

	Note	**January 31 2014**	April 30 2013	May 1 2012
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		**$ 7,841**	$ 8,193	$ 8,921
Short-term investments		**13,248**	13,035	9,387
Trade and other receivables	10.4	**8,412**	11,347	11,693
Inventories	8	**3,442**	4,019	4,293
Derivative assets	10.2	**-**	438	1,026
Income taxes receivable		**57**	45	304
Prepaid expenses		**888**	681	922
		33,888	37,758	36,546
NON-CURRENT ASSETS				
Property, plant and equipment		**21,175**	22,317	24,555
Intangible assets	12	**269**	755	1,004
Derivative assets	10.2	**-**	-	401
Deferred tax assets		**5,100**	3,943	3,427
		$ 60,432	$ 64,773	$ 65,933
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		**$ 7,656**	$ 9,576	$ 8,500
Provisions	9	**632**	295	335
Derivative liabilities	10.2	**3,193**	-	-
		11,481	9,871	8,835
DEFERRED TAX LIABILITIES		**-**	1,275	1,566
DERIVATIVE LIABILITIES	10.2	**971**	-	
OTHER LONG-TERM OBLIGATIONS	12	**154**	731	831
PROVISIONS	9	**-**	285	248
RETIREMENT BENEFIT OBLIGATION	3	**4,798**	4,746	4,766
		17,404	16,908	16,246
CAPITAL AND RESERVES				
Issued capital		**52,853**	52,853	52,916
Contributed surplus		**2,675**	2,675	2,637
Accumulated other comprehensive loss	3	**(2,273)**	(3,077)	(2,536)
Deficit	3	**(10,227)**	(4,586)	(3,330)
		43,028	47,865	49,687
		$ 60,432	$ 64,773	$ 65,933

See accompanying notes to the condensed interim consolidated financial statements.

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

(signed)
Chairman
Madan Bhayana

(signed)
Director
Bartley Bull

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

	Note	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013	Nine Months Ended January 31, 2014	Nine Months Ended January 31, 2013
SALES	6	**$ 14,373**	$ 19,585	**$ 50,984**	$ 58,862
COST OF GOODS SOLD		**11,968**	13,965	**39,445**	42,624
GROSS PROFIT		**2,405**	5,620	**11,539**	16,238
EXPENSES					
Selling, general and administrative	12	**4,968**	5,550	**15,467**	16,023
Unrealized (gain) loss on foreign exchange		**(452)**	22	**(540)**	(2)
Decrease in fair value of derivatives	10.2	**3,482**	85	**4,602**	490
Investment income		**(96)**	(103)	**(286)**	(294)
		7,902	5,554	**19,243**	16,217
(LOSS) INCOME BEFORE TAXES		**(5,497)**	66	**(7,704)**	21
INCOME TAXES		**(1,495)**	(2)	**(2,063)**	(163)
NET (LOSS) INCOME		**$ (4,002)**	$ 68	**$ (5,641)**	$ 184
BASIC AND DILUTED EARNINGS PER SHARE	7	**$ (0.28)**	$ 0.00	**$ (0.39)**	$ 0.01

SUPPLEMENTAL INFORMATION				
Salaries,wages and benefits included in cost of goods sold	**$ 3,907**	$4,119	**$ 12,361**	$ 12,986
Salaries,wages and benefits included in selling, general and administrative	**2,561**	2,908	**8,269**	8,530
Total salaries, wages and benefits	**$ 6,468**	$7,027	**$ 20,630**	$ 21,516
Amortization included in cost of goods sold	**$ 743**	$ 804	**$ 2,192**	$ 2,389
Amortization included in selling, general and administrative	**190**	180	**526**	519
Total amortization	**$ 933**	$ 984	**$ 2,718**	$ 2,908

See accompanying notes to the condensed interim consolidated financial statements.
Note - These condensed interim consoldiated financial statements have not been reviewed by an auditor

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

	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013	Nine Months Ended January 31, 2014	Nine Months Ended January 31, 2013
NET (LOSS) INCOME	**$ (4,002)**	$ 68	**$ (5,641)**	$ 184
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may not be reclassified to earnings				
Remeasurement of defined benefit liabilities	**-**	(219)	**-**	(656)
Tax relating to remeasurement of defined benefit liabilities	**-**	56	**-**	168
Total items that may not be reclassified to earnings	**-**	(163)	-	(488)
Items that may be reclassified to earnings				
Exchange gain (loss) on translating foreign operations	**451**	(13)	**804**	26
OTHER COMPREHENSIVE INCOME (LOSS) , NET OF TAXES	**451**	(176)	**804**	(462)
TOTAL COMPREHENSIVE LOSS, NET OF TAXES	**$ (3,551)**	$ (108)	**$ (4,837)**	$ (278)

See accompanying notes to the condensed interim consolidated financial statements.
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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)(in thousands of Canadian dollars)
Period Ended January 31, 2014

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") — Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Loss ("AOCI") — Cumulative Translation gain (loss)	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2013	**$ 52,853**	**$ 2,675**	**$ (2,548)**	**$ (529)**	**$ (4,586)**	**$ 47,865**
Net Loss	**-**	**-**	**-**	**-**	**(5,641)**	**(5,641)**
Other Comprehensive Income	**-**	**-**	**-**	**804**	**-**	**804**
Total Comprehensive Income	**-**	**-**	**-**	**804**	**(5,641)**	**(4,837)**
BALANCE - January 31, 2014	**$ 52,853**	**$ 2,675**	**$ (2,548)**	**$ 275**	**$ (10,227)**	**$ 43,028**

Period Ended January 31, 2013

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") — Cumulative Remeasurement of Defined Benefit Liabilities	Accumulated Other Comprehensive Loss ("AOCI") — Cumulative Translation gain (loss)	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2012	$ 52,916	$ 2,637	$ (1,898)	$ (638)	$ (3,330)	$ 49,687
Net Income	-	-	-	-	184	184
Other Comprehensive Income (Loss)	-	-	(488)	26	-	(462)
Total Comprehensive Income (Loss)	-	-	(488)	26	184	(278)
Share Repurchase	(63)	37	-	-	-	(26)
BALANCE - January 31, 2013	$ 52,853	$ 2,674	$ (2,386)	$ (612)	$ (3,146)	$ 49,383

See accompanying notes to the condensed interim consolidated financial statements.
Note - These condensed interim consoldiated financial statements have not been reviewed by an auditor

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

	Note	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013	Nine Months Ended January 31 2014	Nine Months Ended January 31 2013
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net (loss) income		**$ (4,002)**	$ 68	**$ (5,641)**	$ 184
Items not affecting cash:					
Amortization		**933**	984	**2,718**	2,908
Asset impairment	12	**344**	-	**344**	-
Pension expense		**204**	185	**606**	561
Unrealized loss (gain) on short-term investments held for trading		**(10)**	9	**170**	(7)
Decrease in fair value of derivatives	10.2	**3,482**	85	**4,602**	490
Deferred income taxes		**(1,495)**	(2)	**(2,063)**	(163)
Share based compensation		**(299)**	(22)	**(577)**	(89)
Unrealized loss (gain) on foreign exchange		**(452)**	22	**(540)**	(2)
Gain on disposal of property, plant and equipment		**-**	(6)	**(6)**	(6)
Employer's contribution to pension funds		**(201)**	(372)	**(727)**	(1,209)
Cash generated from operating activities before non-cash working capital		**(1,496)**	951	**(1,114)**	2,667
Movements in non-cash working capital					
Trade and other receivables		**4,369**	128	**3,724**	82
Inventories		**685**	270	**708**	274
Prepaid expenses		**86**	84	**(190)**	(20)
Accounts payable and accrued liabilities		**(2,263)**	316	**(2,328)**	(374)
Provisions		**(49)**	135	**(12)**	(19)
Income tax assets and liabilities		**11**	275	**(7)**	264
Cash (used for) generated from operating activities		**1,343**	2,159	**781**	2,874
FINANCING ACTIVITIES					
Share repurchase		**-**	-	**-**	(26)
INVESTING ACTIVITIES					
Short-term investments held for trading		**76**	(2,291)	**(383)**	(3,137)
Additions to property, plant and equipment & intangible assets		**(231)**	(161)	**(1,022)**	(959)
Proceeds from disposal of property, plant and equipment		**-**	6	**13**	6
Cash used for investing activities		**(155)**	(2,446)	**(1,392)**	(4,090)
Unrealized foreign exchange (loss) gain on cash and cash equivalents		**262**	(7)	**259**	7
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**1,450**	(294)	**(352)**	(1,235)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**6,391**	7,980	**8,193**	8,921
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 7,841**	$ 7,686	**$ 7,841**	$ 7,686
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		**$ 3,223**	$ 3,090	**$ 3,223**	$ 3,090
Cash equivalents		**4,618**	4,596	**4,618**	4,596
		$ 7,841	$ 7,686	**$ 7,841**	$ 7,686
SUPPLEMENTAL INFORMATION					
Income taxes paid (refunded)		**$ (11)**	$ 269	**$ 7**	$ 259

See accompanying notes to the condensed interim consolidated financial statements.

Note - These condensed interim consoldiated 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, 2013, except for the change in accounting policy as explained in Note 3.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 6, 2014.

3. Change in accounting policy

Post-employment benefits
Beginning on May 1, 2013, the Company applied IAS 19 "Employee Benefits (amended in 2011)" retrospectively in respect of the Company's defined benefit pension plans. Application of this new standard eliminates the deferred recognition of gains and losses of the defined benefit plans.

Defined benefit pension expenses recorded in the Statements of Operations consist of service costs, interest cost on the defined benefit pension obligations, net of interest income on the plan assets. Interest cost is determined by multiplying the pension obligations by the discount rate used to measure the pension obligation at the beginning of the period, taking into account any changes in the pension obligations during the period as a result of benefit payments. Interest income is determined by multiplying the plan assets by the same discount rate used to calculate the interest cost, taking into account of any changes in the plan assets during the period as a result of contribution and benefit payments.

Remeasurements of the defined benefit pension liabilities are recorded in Other Comprehensive Income or Loss. Remeasurements comprise of:

1. actuarial gains and losses on the pension obligation and
2. the difference between the actual return on plan assets and the interest income already included in the Statement of Operations.

Unaudited (in thousands except share and per share amounts)

3. Change in accounting policy (continued)

The following tables summarize the financial impacts of the adoption of IAS 19 for the comparative periods.

May 1, 2012

	Before restatement	Effect of adoption of IAS 19	**Restated balances**
Retirement benefit obligation	$ (1,977)	$ (2,789)	**$ (4,766)**
Deferred tax assets	3,035	392	**3,427**
Deferred tax liabilities	(2,027)	461	**(1,566)**
Net of taxes effect		**$ (1,936)**	

	Before restatement	Effect of adoption of IAS 19	**Restated balances**
Accumulated other comprehensive loss	$ (646)	$ (1,890)	**$ (2,536)**
Deficit	(3,284)	(46)	**(3,330)**
Net of taxes effect		**$ (1,936)**	

April 30, 2013

	Before restatement	Effect of adoption of IAS 19	**Restated balances**
Retirement benefit obligation	$ (1,012)	$ (3,734)	**$ (4,746)**
Deferred tax assets	3,544	399	**3,943**
Deferred tax liabilities	(1,966)	691	**(1,275)**
Net of taxes effect		**$ (2,644)**	

	Before restatement	Effect of adoption of IAS 19	**Restated balances**
Accumulated other comprehensive loss	$ (517)	$ (2,560)	**$ (3,077)**
Deficit	(4,502)	(84)	**(4,586)**
Net of taxes effect		**$ (2,644)**	

<u>Other comprehensive income presentation</u>
IAS 1 – Presentation of Items of Other Comprehensive Income – This standard was amended to require entities to group items presented in “Other Comprehensive Income” in two categories based on whether those items will or will not be classified to profit or loss in the future. Implementation of IAS 1 did not have any impact on the Company’s interim financial statements.

<u>Fair value measurement</u>
IFRS 13 – Fair Value Measurements – This standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements about fair value measurement. Implementation of IFRS 13 did not have any impact on the Company’s interim financial statements.

3. Change in accounting policy (continued)

Consolidated financial statements
IFRS 10 - Consolidated Financial Statements – This new standard provides a control-based requirement for consolidation across all types of interests in other entities. Implementation of IFRS 10 did not have any impact on the Company's interim financial statements.

4. 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.

4.1 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.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

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.

5. Future Accounting Policy Changes

Financial instruments classification and measurement
IFRS 9 – Financial Instruments replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will provide relevant information to users of financial statements on the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the impact of this standard.

Financial instruments presentation: Asset and liability offsetting
IAS 32 – Financial Instruments: Presentation. This standard clarifies the requirements which permit offsetting a financial asset and liability in the financial statements. IAS 32 is effective for annual periods beginning or after January 1, 2014. The Company is assessing the impact of this standard.

Unaudited (in thousands except share and per share amounts)

6. Segment information

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

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

	Three Months Ended January 31, 2014	2013	Nine Months Ended January 31, 2014	2013
Sales from				
United States	**$ 12,443**	$15,336	**$ 44,723**	$ 49,230
Canada	**1,822**	4,028	**5,861**	9,117
Other	**108**	221	**400**	515
	$ 14,373	$19,585	**$ 50,984**	$ 58,862

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.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. 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.

	Three Months Ended January 31, 2014	2013	Nine Months Ended January 31, 2014	2013
Segment Sales				
Furniture	**$ 10,568**	$ 13,557	**$ 36,068**	$ 44,792
Movable walls and rollform	**3,805**	6,028	**14,916**	14,070
	$ 14,373	$ 19,585	**$ 50,984**	$ 58,862
Segment Operating (Losses) Income				
Furniture	**$ (2,208)**	$ (376)	**$ (4,425)**	$ 114
Movable walls and rollform	**(355)**	446	**497**	101
	(2,563)	70	**(3,928)**	215
Unrealized exchange (gain) loss	**(452)**	22	**(540)**	(2)
Decrease in fair value of derivatives	**3,482**	85	**4,602**	490
Investment income	**(96)**	(103)	**(286)**	(294)
(Loss) Income before taxes	**(5,497)**	66	**(7,704)**	21
Provision for income taxes	**(1,495)**	(2)	**(2,063)**	(163)
Net (loss) income	**$ (4,002)**	$ 68	**$ (5,641)**	$ 184

Unaudited (in thousands except share and per share amounts)

7. Earnings per share

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

	Three Months Ended January 31,	
Numerator	**2014**	2013
Net (loss) income for the quarter for basic and diluted earnings per share	**$ (4,002)**	$ 68
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,373,201**	14,373,201
Dilution impact of stock options	**16,954**	1,920
Weighted average number of shares outstanding for diluted earnings per share	**14,390,155**	14,375,121

	Nine Months Ended January 31,	
Numerator	**2014**	2013
Net (loss) income for the period for basic and diluted earnings per share	**$ (5,641)**	$ 184
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,373,201**	14,375,892
Dilution impact of stock options	**6,943**	56,254
Weighted average number of shares outstanding for diluted earnings per share	**14,380,144**	14,432,146

481,043 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share for the three-month period ended January 31, 2014 (2013-655,509).

773,454 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share for the nine-month period ended January 31, 2014 (2013-58,427).

8. Inventories

	January 31, 2014	April 30, 2013	May 1, 2012
Raw materials	**$ 2,761**	$ 2,907	$ 3,113
Work-in-progress	**287**	330	370
Finished goods	**394**	782	810
	$ 3,442	$ 4,019	$ 4,293

The cost of inventories recognized as cost of goods sold was $11,532 (2013 - $12,782) for the three-month period and $36,970 (2013 - $40,328) for the nine-month period ended January 31, 2014.

There was an inventory write-down of $125 during the three-month period (2013 - $97) and $133 during the nine- month period (2013 - $145).

Unaudited (in thousands except share and per share amounts)

9. Provisions

	Warranties (i)	NYWCB (ii)	**Total**
Balance at April 30, 2013	$ 295	$ 285	**$ 580**
Additional provisions recognized	55	99	**154**
Reductions arising from payments	(143)	-	**(143)**
Reversal of unused amounts	(21)	-	**(21)**
Currency exchange loss	25	37	**62**
Balance at October 31, 2013	$ 211	$ 421	**$ 632**

(i)The provision for warranty claims represents the present value of the management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties. The estimate has been made on the basis of potential warranty claims known to the management.

(ii) The NYWCB represents provision for an assessment from the New York State Workers' Compensation Board.

On November 22, 2010, the New York State Workers' Compensation Board (the "NYSWC Board") notified the Company of an assessment of US $784 as the Company's liability to cover the deficit of the Metal Goods and Manufacturers Self Insurance Trust Fund (the "Fund").

In 2005, the Fund filed a complaint with the New York State Supreme Court alleging that the Company must pay US $70 to cover the Fund's deficit. The Company defended the claim together with 14 other companies that were served the complaint in varying amounts. In 2008, the New York State Supreme Court dismissed the Fund's complaint as being without merit. In 2009, the Court rejected the Fund's application for an appeal. The Fund was subsequently dissolved and taken over by the NYSWC Board. In January 2010, the NYSWC Board issued an interim assessment of US $114 for the Fund's deficit and in November 2010 they revised the assessment to US $784.

The Company has signed a Memorandum of Understanding (the "MOU") with the NYSWC Board to provide them interim cash flow funding over an eighteen-month period beginning March 2011. In return, the NYSWC Board will not commence an administrative and/or civil action against the Company and vice-versa during the time the MOU is in effect. Either the NYSWC Board or the Company can terminate the MOU by giving ninety days prior written notice of such termination. Based on the funding provision in the MOU, US $528 was accrued in fiscal year 2011.

The NYSWC issued a final assessment on November 1, 2013, which required an additional accrual of US$95 to reach a full and final settlement on the matter.

The accrual was paid in March 2014 in exchange for a release of the claim issued by the NYSWC Board.

Unaudited (in thousands except share and per share amounts)

10. Financial instruments

10.1 Capital risk management

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

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

	January 31, 2014	April 30, 2013	May 1, 2012
Issued capital	**$ 52,853**	$ 52,853	$ 52,916
Contributed surplus	**2,675**	2,675	2,637
Deficit	**(10,227)**	(4,586)	(3,330)
	$ 45,301	$ 50,942	$ 52,223

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 adjust the amount of dividends paid to shareholders, return capital to shareholders, or draw on its line of credit.

10.2 Foreign currency risk management

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

As at January 31, 2014, the Company had 7 U.S. dollar hedge contracts with settlement dates from February 2014 to July 2015. The total nominal amounts under the contracts are U.S $67,500. Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.001 CAD/USD to $1.095 CAD/USD (weighted average rate of $1.05 CAD/USD). These contracts had a mark-to-market loss of $4,164 (U.S. $3,738), which was recognized on the interim 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.

Unaudited (in thousands except share and per share amounts)

10. Financial instruments (continued)

The following reconciles the changes in the derivatives at the beginning and the end of the period:

Fair value of derivative assets as at April 30, 2013	$	**438**
Changes in fair value during the period:		
Decrease in fair value of new contracts added		**(3,358)**
Reversal of fair value of contracts settled		**(480)**
Decrease in fair values of outstanding contracts		**(764)**
Total decrease in fair value of derivative assets		**(4,602)**
Fair value of net derivative liabilities as at January 31, 2014	$	**(4,164)**
Current	$	**(3,193)**
Long-term		**(971)**
	$	**(4,164)**

Foreign currency sensitivity analysis

Based on the existing average forward contract exchange rate and the mix of U.S. dollar denominated sales and expenses for the nine-month period ended January 31, 2014, a 5% change in the Canadian dollar against the U.S. dollar would have approximately $203 impact on the Company's pre-tax earnings (2013 – approximately $270).

10.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that investment income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the nine-month period ended January 31, 2014, each 100 basis point variation in the market interest rate is estimated to result in a change of $66 in the Company's investment income (2013 - $63).

10.4 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,

Unaudited (in thousands except share and per share amounts)

10. Financial instruments (continued)

spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at January 31, 2014, the allowance for doubtful accounts was $414 (April 30, 2013 - $422).

10.5 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's liquidity risk is very limited as its cash, cash equivalents and short-term investments are consistently in excess of the financial liabilities.

The Company is debt-free and has access to financing facilities, which were unused at the end of the reporting period (2013: unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

10.6 Fair value hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

January 31, 2014	**Level 1**	**Level 2**	**Level 3**
Short-term investments	**$ 13,248**	**$ -**	**$ -**
Derivative liabilities	**-**	**(4,164)**	**-**
	$ 13,248	**$ (4,164)**	**$ -**

April 30, 2013	Level 1	Level 2	Level 3
Short-term investments	$ 13,035	$ -	$ -
Derivative assets	-	438	-
	$ 13,035	$ 438	$ -

May 1, 2012	Level 1	Level 2	Level 3
Short-term investments	$ 9,387	$ -	$ -
Derivative assets	-	1,427	-
	$ 9,387	$ 1,427	$ -

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

Unaudited (in thousands except share and per share amounts)

11. Other long-term obligations

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

	January 31, 2014	April 30, 2013	May 1, 2012
Deferred Share Units	$ 36	$ 444	$ 367
Stock Options	118	245	387
Performance Share Units	-	42	77
	$ 154	$ 731	$ 831

12. Asset impairment

During the three-month period ended January 31, 2014, the Company completed an impairment review on a product licence fee. The Company determined that the carrying amount of $344 may not be recoverable based on the Company's assessment of demand for the product. The asset impairment charge of $344 is included in the selling, general and administrative expense and reduced the carrying value of intangible assets.

13. 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, Executive VP Marketing and Product Development, VP Manufacturing and VP Human Resources.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Salaries and short-term benefits	$ 176	$ 381	$ 908	$ 1,112
Post-employment benefits	-	4	4	11
Share-based compensation	(138)	(22)	(54)	93
	$ 38	$ 363	$ 858	$ 1,216