Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

April 30, 2014 and 2013

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

	Note	**April 30, 2014**	April 30, 2013	May 1, 2012
			(restated, note 3)	(restated note 3)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		**$ 6,029**	$ 8,193	$ 8,921
Short-term investments		**12,869**	13,035	9,387
Trade and other receivables	11.4	**9,643**	11,347	11,693
Inventories	8	**3,944**	4,019	4,293
Derivative assets	11.2	**-**	438	1,026
Income taxes receivable		**56**	45	304
Prepaid expenses		**787**	681	922
		33,328	37,758	36,546
NON-CURRENT ASSETS				
Property, plant and equipment		**20,498**	22,317	24,555
Intangible assets		**227**	755	1,004
Derivative assets	10.2	**-**	-	401
Deferred tax assets	15	**4,302**	3,943	3,427
		$ 58,355	$ 64,773	$ 65,933
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		**$ 9,175**	$ 9,576	$ 8,500
Provisions	9	**230**	295	335
Derivative liabilities	11.2	**2,321**	-	-
		11,726	9,871	8,835
DEFERRED TAX LIABILITIES		**1,014**	1,275	1,566
DERIVATIVE LIABILITIES	11.2	**66**	-	
OTHER LONG-TERM OBLIGATIONS	12	**248**	731	831
PROVISIONS	9	**-**	285	248
RETIREMENT BENEFIT OBLIGATION	3	**1,707**	4,746	4,766
		14,761	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	**(302)**	(3,123)	(2,582)
Deficit	3	**(11,632)**	(4,540)	(3,284)
		43,594	47,865	49,687
		$ 58,355	$ 64,773	$ 65,933

The accompanying notes are an integral part of these consoldiated financial statements

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

(signed) (signed)
Chairman Director
Madan Bhayana Bartley Bull

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

	Note	Three Months Ended April 30, 2014	2013 (restated, note 3)	Years Ended April 30, 2014	2013 (restated, note 3)
SALES	6	**$ 15,171**	$ 16,038	**$ 66,155**	$ 74,900
COST OF GOODS SOLD		**11,968**	12,424	**51,413**	55,048
GROSS PROFIT		**3,203**	3,614	**14,742**	19,852
EXPENSES					
Selling, general and administrative		**5,423**	5,390	**20,890**	21,413
Unrealized (gain) loss on foreign exchange		**151**	(93)	**(389)**	(95)
(Increase) Decrease in fair value of derivatives	11.2	**(1,777)**	499	**2,825**	989
Investment income		**(88)**	(100)	**(374)**	(394)
		3,709	5,696	**22,952**	21,913
LOSS BEFORE TAXES		**(506)**	(2,082)	**(8,210)**	(2,061)
INCOME TAXES	15	**945**	(642)	**(1,118)**	(805)
NET LOSS		**$ (1,451)**	$ (1,440)	**$ (7,092)**	$ (1,256)
BASIC AND DILUTED EARNINGS PER SHARE	7	**$ (0.10)**	$ (0.10)	**$ (0.49)**	$ (0.09)

SUPPLEMENTAL INFORMATION

	Three Months 2014	2013	Years 2014	2013
Salaries,wages and benefits included in cost of goods sold	**$ 3,675**	$ 3,710	**$ 16,036**	$ 16,696
Salaries,wages and benefits included in selling, general and administrative	**2,948**	2,818	**11,217**	11,348
Total salaries, wages and benefits	**$ 6,623**	$ 6,528	**$ 27,253**	$ 28,044
Amortization included in cost of goods sold	**$ 728**	$ 817	**$ 2,920**	$ 3,206
Amortization included in selling, general and administrative	**194**	185	**720**	704
Total amortization	**$ 922**	$ 1,002	**$ 3,640**	$ 3,910

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

	Note	Three Months Ended April 30, 2014	2013 (restated, note 3)	Years Ended April 30, 2014	2013 (restated, note 3)
NET LOSS		**$ (1,451)**	$ (1,440)	**$ (7,092)**	$ (1,256)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may not be reclassified to earnings					
Remeasurement of defined benefit liabilities	3	**2,921**	(219)	**2,921**	(875)
Tax relating to remeasurement of defined benefit liabilities		**(800)**	57	**(800)**	225
Total items that may not be reclassified to earnings		**2,121**	(162)	**2,121**	(650)
Items that may be reclassified to earnings					
Exchange gain (loss) on translating foreign operations		**(104)**	83	**700**	109
OTHER COMPREHENSIVE INCOME (LOSS) , NET OF TAXES		**2,017**	(79)	**2,821**	(541)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAXES		**$ 566**	$ (1,519)	**$ (4,271)**	$ (1,797)

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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)
Year Ended April 30, 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 (restated, note 3)	**$ 52,853**	**$ 2,675**	**$ (2,594)**	**$ (529)**	**$ (4,540)**	**$ 47,865**
Net Loss	-	-	-	-	**(7,092)**	**(7,092)**
Other Comprehensive Income	-	-	**2,121**	**700**	-	**2,821**
Total Comprehensive Income	-	-	**2,121**	**700**	**(7,092)**	**(4,271)**
BALANCE - April 30, 2014	**$ 52,853**	**$ 2,675**	**$ (473)**	**$ 171**	**$ (11,632)**	**$ 43,594**

Year Ended April 30, 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 as previously reported	$ 52,916	$ 2,637	$ -	$ (646)	$ (3,284)	$ 51,623
Adjustmemt for IAS 19	-	-	(1,944)	8	-	(1,936)
BALANCE - May 1, 2012 restated	52,916	2,637	(1,944)	(638)	(3,284)	49,687
Net Loss	-	-	-	-	(1,256)	(1,256)
Other Comprehensive Income (Loss)	-	-	(650)	109	-	(541)
Total Comprehensive Income (Loss)	-	-	(650)	109	(1,256)	(1,797)
Share Repurchase	(63)	38	-	-	-	(25)
BALANCE -April 30, 2013 (restated, note 2)	$ 52,853	$ 2,675	$ (2,594)	$ (529)	$ (4,540)	$ 47,865

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

	Note	Three Months Ended April 30, 2014	Three Months Ended April 30, 2013	Years Ended April 30 2014	Years Ended April 30 2013
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net loss		**$ (1,451)**	$ (1,440)	**$ (7,092)**	$ (1,256)
Items not affecting cash:					
Amortization		**922**	1,002	**3,640**	3,910
Asset impairment	14	**-**	-	**344**	-
Pension expense		**64**	171	**670**	732
Unrealized loss on short-term investments held for trading		**(32)**	43	**43**	36
(Increase) Decrease in fair value of derivatives	11.2	**(1,777)**	499	**2,825**	989
Deferred income taxes		**945**	(629)	**(1,118)**	(792)
Share based compensation		**94**	(11)	**(483)**	(100)
Unrealized gain on foreign exchange		**151**	(93)	**(389)**	(95)
Gain on disposal of property, plant and equipment		**-**	(2)	**(6)**	(8)
Employer's contribution to pension funds		**(207)**	(452)	**(934)**	(1,661)
Cash (used for) generated from operating activities before non-cash working capital		**(1,291)**	(912)	**(2,500)**	1,755
Movements in non-cash working capital					
Trade and other receivables		**(1,314)**	333	**2,410**	415
Inventories		**(524)**	34	**184**	308
Prepaid expenses		**96**	262	**(94)**	242
Accounts payable and accrued liabilities		**1,580**	1,401	**(748)**	1,027
Provisions		**(394)**	7	**(406)**	(12)
Income tax assets and liabilities		**1**	263	**(6)**	527
Cash (used for) generated from operating activities		**(1,846)**	1,388	**(1,160)**	4,262
FINANCING ACTIVITIES					
Share repurchase		**-**	-	**-**	(26)
INVESTING ACTIVITIES					
Short-term investments held for trading		**411**	(547)	**123**	(3,684)
Additions to property, plant and equipment & intangible assets		**(272)**	(383)	**(1,294)**	(1,342)
Proceeds from disposal of property, plant and equipment		**-**	2	**13**	8
Cash generated from (used for) investing activities		**139**	(928)	**(1,158)**	(5,018)
Unrealized foreign exchange (loss) gain on cash and cash equivalents		**(105)**	47	**154**	54
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,812)**	507	**(2,164)**	(728)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**7,841**	7,686	**8,193**	8,921
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 6,029**	$ 8,193	**$ 6,029**	$ 8,193
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		**$ 1,911**	$ 2,524	**$ 1,911**	$ 2,524
Cash equivalents		**4,118**	5,669	**4,118**	5,669
		$ 6,029	$ 8,193	**$ 6,029**	$ 8,193

The accompanying notes are an integral part of these consoldiated 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, 2014.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on June 26, 2014.

3. New accounting policies adopted

IAS 1 Presentation of financial statements
Annual Improvements to IFRSs 2009 – 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Company has adopted IAS 19 – *Employee benefits* in relation to the Company's defined benefit pension obligations, which has resulted in material effects on the information in the consolidated statement of financial position. In accordance with the amendments to IAS 1, the Company has presented a third statement of financial position as at May 1, 2012 without the related notes except for the disclosure requirement of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* as detailed below.

Unaudited (in thousands except share and per share amounts)

3. New accounting policies adopted (continued)

IAS 19 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.

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

	April 30, 2012	Increase (decrease)	April 30, 2012 (restated)
Deferred tax assets	$ 3,035	$392	$3,427
Retirement benefit obligations	1,977	2,789	4,766
Deferred tax liabilities	2,027	(461)	1,566
Accumulated OCI	(646)	(1,936)	(2,582)

	April 30, 2013	Increase (decrease)	April 30, 2013 (restated)
Deferred tax assets	$ 3,544	$399	$3,943
Retirement benefit obligations	1,012	3,734	4,746
Deferred tax liabilities	1,966	(691)	1,275
Cost of goods sold	54,997	51	55,048
Income tax recovery	792	13	805
Accumulated OCI	(517)	(2,606)	(3,123)

There was no cash impact on the consolidated statements of cash flows for the year ended April 30, 2013.

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.

Determination of 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 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 Changes

The following new accounting standard issued by IASB is effective for the Company's condensed interim and annual consolidated financial statements beginning on May 1, 2015. The adoption of these standards is not expected to have a significant impact on the Company's financial position or results of operations.

IFRS 9 – Financial Instruments
This standard 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.

IFRIC Interpretation 21 – Levies
In May 2013, the IASB issued IFRIC Interpretation 21 – Levies ("IFRIC 21"), which is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. The Company is assessing the potential 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 April 30, 2014	Three Months Ended April 30, 2013	Years Ended April 30, 2014	Years Ended April 30, 2013
Sales from				
United States	**$ 13,826**	$ 13,132	**$ 58,549**	$ 62,362
Canada	**1,330**	2,866	**7,191**	11,983
Other	**15**	40	**415**	555
	$ 15,171	$ 16,038	**$ 66,155**	$ 74,900

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 represents the profit earned 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 April 30, 2014	Three Months Ended April 30, (restated, note 2) 2013	Years Ended April 30, 2014	Years Ended April 30, (restated, note 2) 2013
Segment Sales				
Furniture	**$ 10,986**	$ 10,706	**$ 47,054**	$ 55,498
Movable walls and rollform	**4,185**	5,332	**19,101**	19,402
	$ 15,171	$ 16,038	**$ 66,155**	$ 74,900
Segment Operating Losses				
Furniture	**$ (1,527)**	$ (1,569)	**$ (5,952)**	$ (1,455)
Movable walls and rollform	**(693)**	(207)	**(196)**	(106)
	(2,220)	(1,776)	**(6,148)**	(1,561)
Unrealized exchange (gain) loss	**151**	(93)	**(389)**	(95)
(Increase) Decrease in fair value of derivatives	**(1,777)**	499	**2,825**	989
Investment income	**(88)**	(100)	**(374)**	(394)
Loss before taxes	**(506)**	(2,082)	**(8,210)**	(2,061)
Provision for income taxes	**945**	(642)	**(1,118)**	(805)
Net loss	**$ (1,451)**	$ (1,440)	**$ (7,092)**	$ (1,256)

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 April 30,	
Numerator	**2014**	2013
Net loss for the quarter for basic and diluted earnings per share	**$ (1,451)**	$ (1,440)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,373,201**	14,373,201
Dilution impact of stock options	**6,312**	9,413
Weighted average number of shares outstanding for diluted earnings per share	**14,379,513**	14,382,614

	Years Ended April 30,	
Numerator	**2014**	2013
Net loss for the year for basic and diluted earnings per share	**$ (7,092)**	$ (1,256)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,373,201**	14,375,236
Dilution impact of stock options	**6,629**	77,142
Weighted average number of shares outstanding for diluted earnings per share	**14,379,830**	14,452,378

Diluted loss per common share for the 3 month periods and the years ended April 30, 2014 and April 30, 2013 has not been disclosed as the effect of the conversion would be anti-dilutive.

8. Inventories

	April 30, 2014	April 30, 2013
Raw materials	**$ 2,622**	$ 2,907
Work-in-progress	**376**	330
Finished goods	**946**	782
	$ 3,944	$ 4,019

The cost of inventories recognized as cost of goods sold during the year in respect of continuing operations was $11,158 (2013 - $11,403) for the three-month period and $48,128 for the twelve-month period (2013 - $51,731).

There was an inventory write-down of $13 during the three-month period (2013 - $nil). There was an inventory write-down of $146 during the twelve-month period (2013 - $145). There was no reversal of inventory write-down during the three-month and twelve-month periods.

Unaudited (in thousands except share and per share amounts)

9. Provisions

	Warranties (i)	NYWCB (ii)	**Total**
Balance, beginning of year	$ 295	$ 285	**$ 580**
Additional provisions recognized	143	99	**242**
Reductions arising from payments	(143)	(418)	**(561)**
Reversal of unused amounts	(88)	-	**(88)**
Currency exchange loss	23	34	**57**
Balance, end of year	$ 230	$ -	**$ 230**

(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 management.

(ii) The NYWCB represents provision for an assessment from the New York State Workers' Compensation Board that was accrued in fiscal year 2011 and was settled in the current fiscal year

10. Issued capital

The authorized capital of the Company consists of 7,670,881 Class A multiple voting shares and an unlimited number of Class B subordinated voting shares.

Class A multiple voting shares carry ten votes per share. Class B subordinated shares are listed on the Toronto Stock Exchange and carry one vote per share.

11. Financial instruments

11.1 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:

	April 30, 2014	April 30, 2013
Issued capital	**$ 52,853**	$ 52,853
Contributed surplus	**2,675**	2,675
Deficit	**(11,632)**	(4,540)
	$ 43,896	$ 50,988

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.

Unaudited (in thousands except share and per share amounts)

11. Financial instruments (continued)

11.2 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 April 30, 2014, the Company has 8 U.S. dollar forward contracts with settlement dates ranging from May 2014 to July 2015. Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. $49,000 to $61,250 at rates ranging from $1.022 CAD/USD to $1.106 CAD/USD. The weighted average exchange rate is $1.056 CAD/USD. These contracts had a mark-to-market loss of U.S. $2,178, which was recognized on the consolidated statements of financial position as derivative assets. Changes in the net gain or loss from the prior reporting periods due to addition of forward contracts, movements in the U.S. currency exchange rate and reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statements of operations as increase or decrease in fair value of derivative assets or liabilities of the period.

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

		April 30, 2014		April 30, 2013
Fair value of derivative assets, beginning of year	**$**	**438**	$	1,427
Changes in fair value during the year:				
Change in fair value of new contracts added		**(2,601)**		54
Reversal of fair value of contracts settled		**(275)**		(1,157)
Change in fair values of outstanding contracts		**51**		114
Total decrease in fair value of derivative assets during the year		**(2,825)**		(989)
Fair value of net derivative (liabilities) assets, end of year	**$**	**(2,387)**	$	438
Current	**$**	**(2,321)**	$	438
Long-term		**(66)**		-
	$	**(2,387)**	$	438

Foreign currency sensitivity analysis

Based on the existing average U.S. currency hedge contract rates and the mix of U.S. dollar denominated sales and expenses for the year ended April 30, 2014, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of about $120 on the Company's earnings (2013 – $95).

11. Financial instruments (continued)

11.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the year ended April 30, 2014, each 100 basis point variation in the market interest rate is estimated to result in a change of $88 in the Company's investment income (2013 - $88).

11.4 Credit risk management

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

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing of credit limits, monitoring aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at April 30, 2014, the allowance for doubtful accounts was $431 (April 30, 2013 - $423).

11.5 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.

Unaudited (in thousands except share and per share amounts)

11. Financial instruments (continued)

11.6 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).

April 30, 2014	**Level 1**	**Level 2**	**Level 3**
Short-term investments	**$ 12,869**	**$ -**	**$ -**
Derivative liabilities	**-**	**(2,387)**	**-**
	$ 12,869	**$ (2,387)**	**$ -**

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

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

12. Other long-term obligations

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

	April 30, 2014	April 30, 2013
Deferred Share Units	**$ 61**	$ 444
Stock Options	**187**	245
Performance Share Units	**-**	42
	$ 248	$ 731

Unaudited (in thousands except share and per share amounts)

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, VP Manufacturing and VP Human Resources (2013 – key management personnel included President and Chief Executive Officer, Chief Financial Officer, Executive VP Marketing and Production Development, VP Manufacturing and VP Human Resources) .

	Three Months Ended April 30,		Years Ended April 30,	
	2014	2013	**2014**	2013
Salaries and short-term benefits	**$ 342**	$ 271	**$ 1,250**	$ 1,383
Post-employment benefits	**9**	5	**13**	16
Share-based compensation	**82**	(11)	**28**	82
	$ 433	$ 265	**$ 1,291**	$ 1,481

14. Asset impairment

During the year, the Company completed an impairment review on 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 of the furniture segment.

15. Income taxes

As at April 30, 2014, the Company has unused non-capital loss of $11,607 (2013 - $6,185), consisting of Canadian non-capital loss of $6,163 and U.S. non-capital loss of $5,444 (2013 – Canadian $1,127, U.S. $5,058) which may be carried forward and used to reduce future years' taxable income. The future income tax benefit of these losses of $3,747 net of valuation allowance of $883 (April 30, 2013 - $2,393) has been included in the deferred tax assets. The valuation allowance adjusts the Canadian non-capital loss to an amount that can be utilized based on the Company's judgment. The same amount is charged to income tax expense of the quarter.

16. 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 April 30, 2014 (2013 – nil).