Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

October 31, 2012 and 2011

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

	Note	**October 31 2012**	April 30 2012
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 7,980**	$ 8,921
Short-term investments		**10,249**	9,387
Trade and other receivables	10.4	**11,747**	11,693
Inventories	7	**4,311**	4,293
Derivative assets	10.2	**1,022**	1,026
Income taxes receivable		**318**	304
Prepaid expenses		**1,027**	922
		36,654	36,546
NON-CURRENT ASSETS			
Property, plant and equipment		**23,616**	24,555
Intangible assets		**863**	1,004
Derivative assets	10.2	**-**	401
Deferred tax assets		**3,118**	3,035
		$ 64,251	$ 65,541
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 7,844**	$ 8,500
Provisions	8	**163**	335
		8,007	8,835
RETIREMENT BENEFIT OBLIGATION		**1,499**	1,977
OTHER LONG-TERM OBLIGATIONS	11	**764**	831
PROVISIONS	8	**272**	248
DEFERRED TAX LIABILITIES		**1,927**	2,027
		12,469	13,918
CAPITAL AND RESERVES			
Issued capital	9	**52,853**	52,916
Contributed surplus	9	**2,674**	2,637
Accumulated other comprehensive loss		**(597)**	(646)
Deficit		**(3,148)**	(3,284)
		51,782	51,623
		$ 64,251	$ 65,541

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
Doug C. Lord

(signed)
Director
Robert G. Long

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

	Note	Three Months Ended October 31, 2012	2011	Six Months Ended October 31, 2012	2011
SALES	5	**$ 18,210**	$ 21,867	**$ 39,277**	$ 41,192
COST OF GOODS SOLD		**12,968**	16,198	**28,633**	32,462
GROSS PROFIT		**5,242**	5,669	**10,644**	8,730
EXPENSES					
Selling, general and administrative		**5,119**	5,951	**10,452**	11,636
Unrealized loss (gain) on foreign exchange		**18**	(483)	**(24)**	(399)
Decrease in fair value of derivative assets	10.2	**228**	735	**405**	611
Investment income		**(102)**	(157)	**(170)**	(273)
		5,263	6,046	**10,663**	11,575
LOSS BEFORE TAXES		**(21)**	(377)	**(19)**	(2,845)
INCOME TAX RECOVERY		**(91)**	(133)	**(155)**	(911)
NET INCOME (LOSS)		**$ 70**	$ (244)	**$ 136**	$ (1,934)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	6	**$ 0.00**	$ (0.02)	**$ 0.01**	$ (0.13)

SUPPLEMENTAL INFORMATION

Salaries,wages and benefits included in cost of goods sold	**$ 4,058**	$ 4,810	**$ 8,857**	$ 9,834
Salaries,wages and benefits included in selling, general and administrative	**2,826**	3,091	**5,596**	6,042
Total salaries, wages and benefits	**$ 6,884**	$ 7,901	**$ 14,453**	$ 15,876
Amortization included in cost of goods sold	**$ 797**	$ 819	**$ 1,585**	$ 1,580
Amortization included in selling, general and administrative	**174**	124	**339**	227
Total amortization	**$ 971**	$ 943	**$ 1,924**	$ 1,807

See accompanying notes to the condensed interim consoldiated financial statements

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

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

	Three Months Ended October 31, 2012	2011	Six Months Ended October 31, 2012	2011
NET INCOME (LOSS)	**$ 70**	$ (244)	**$ 136**	$ (1,934)
OTHER COMPREHENSIVE INCOME (LOSS)				
Reclassification of gains on derivatives to income	**-**	-	**-**	(207)
Income tax relating to gains on derivatives	**-**	-	**-**	78
Exchange (loss) gain on translating foreign operations	**(296)**	345	**49**	406
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	**(296)**	345	**49**	277
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAXES	**$ (226)**	$ 101	**$ 185**	$ (1,657)

See accompanying notes to the condensed interim consoldiated financial statements

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

INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)
Period Ended October 31, 2012

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") Unrealized gain (loss) on derivatives	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Translation gain (loss)	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2012	**$ 52,916**	**$ 2,637**	**$ -**	**$ (646)**	**$ (3,284)**	**$ 51,623**
Net Income	**-**	**-**	**-**	**-**	**136**	**136**
Other Comprehensive Income	**-**	**-**	**-**	**49**	**-**	**49**
Total Comprehensive Income	**-**	**-**	**-**	**49**	**136**	**185**
Share Repurchase	**(63)**	**37**	**-**	**-**	**-**	**(26)**
BALANCE - October 31, 2012	**$ 52,853**	**$ 2,674**	**$ -**	**$ (597)**	**$ (3,148)**	**$ 51,782**

Period Ended October 31, 2011

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss ("AOCI") Unrealized gain (loss) on derivatives	Accumulated Other Comprehensive Loss ("AOCI") Cumulative Translation gain (loss)	Deficit	Total Shareholders' Equity
BALANCE - May 1, 2011	$ 54,166	$ 1,946	$ 129	$ (1,012)	$ (1,295)	$ 53,934
Net Loss	-	-	-	-	(1,934)	(1,934)
Other Comprehensive Income	-	-	(129)	406	-	277
Total Comprehensive Loss	-	-	(129)	406	(1,934)	(1,657)
Share Repurchase	(1,160)	642	-	-	-	(518)
BALANCE - October 31, 2011	$ 53,006	$ 2,588	$ -	$ (606)	$ (3,229)	$ 51,759

See accompanying notes to the condensed interim consoldiated financial statements

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

	Note	Three Months Ended Octobe 31, 2012	2011	Six Months Ended October 31, 2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net income (loss)		**$ 70**	$ (244)	**$ 136**	$ (1,934)
Items not affecting cash:					
Amortization		**971**	943	**1,924**	1,807
Pension expense		**175**	362	**350**	477
Unrealized loss (gain) on short-term investments held for trading		**18**	101	**(16)**	19
Decrease in fair value of derivative assets	10.2	**228**	735	**405**	611
Deferred income taxes		**(91)**	(132)	**(155)**	(910)
Derivative assets and liabilities		**-**	-	**-**	578
Stock based compensation		**(29)**	119	**(67)**	340
Unrealized loss (gain) on foreign exchange		**18**	(483)	**(24)**	(399)
Gain on disposal of property, plant and equipment		**-**	(6)	**-**	(17)
Employer's contribution to pension funds		**(595)**	(1,104)	**(837)**	(1,282)
Cash generated from (used for) operating activities before non-cash working capital		**765**	291	**1,716**	(710)
Movements in non-cash working capital					
Trade and other receivables		**894**	1,222	**(46)**	(3,239)
Inventories		**164**	521	**4**	(447)
Prepaid expenses		**(26)**	(44)	**(104)**	(185)
Accounts payable and accrued liabilities		**(288)**	6	**(690)**	221
Provisions		**(78)**	(84)	**(154)**	(171)
Income tax receivable		**(1)**	(294)	**(11)**	(354)
Cash generated from (used for) operating activities		**1,430**	1,618	**715**	(4,885)
FINANCING ACTIVITIES					
Share repurchase	9	**(13)**	(447)	**(26)**	(518)
INVESTING ACTIVITIES					
Short-term investments held for trading		**(147)**	1,032	**(846)**	4,711
Additions to property, plant and equipment & intangible assets		**(349)**	(1,187)	**(798)**	(2,193)
Proceeds from disposal of property, plant and equipment		**-**	8	**-**	19
Cash (used for) generated from investing activities		**(496)**	(147)	**(1,644)**	2,537
Unrealized foreign exchange gain on cash and cash equivalents		**38**	186	**14**	174
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**959**	1,210	**(941)**	(2,692)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**7,021**	3,643	**8,921**	7,545
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 7,980**	$ 4,853	**$ 7,980**	$ 4,853
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		**$ 6,934**	$ 4,597	**$ 6,934**	$ 4,597
Cash equivalents		**1,046**	256	**1,046**	256
		$ 7,980	$ 4,853	**$ 7,980**	$ 4,853
SUPPLEMENTAL INFORMATION					
Income taxes paid		**$ -**	$ 290	**$ 10**	$ 401

See accompanying notes to the condensed interim consoldiated financial statements

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

1. General information

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

The Company is an office furniture manufacturer with production at two facilities in Canada and the United States in approximately 438,000 square feet of space. Inscape serves its customers through a network of authorized dealers.

2. Statement of compliance

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

These financial statements follow the same accounting policies as were used for the consolidated financial statements for the year ended April 30, 2012.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on December 13, 2012.

3. Critical accounting judgments and key sources of estimation uncertainty

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

3.1 Critical estimates and judgments in applying accounting policies

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

Critical judgments:

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

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

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

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

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

Critical estimates:

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

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

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

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

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

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

4. Future Accounting Policy Changes

The following new accounting standards issued by the International Accounting Standards Board (IASB) are effective for the Company's reporting periods beginning on or after January 1, 2013 except for IFRS 9, which is effective for reporting periods beginning or after January 1, 2015. The Company is assessing the potential impacts of the adoption of these new standards on its consolidated financial statements.

4. Future Accounting Policy Changes (continued)

(a) 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.

(b) 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.

(c) IAS 19 – Employee Benefits – The amendments eliminates the deferred recognition of gains and losses resulting from defined benefit plans, eliminate the options for the presentation of gains and losses relating to those plans and improve the accounting for termination benefits.

(d) IFRS 13 – Fair Value Measurements – This standard provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

(e) IFRS 10 - Consolidated Financial Statements – This new standard provides a control-based requirement for consolidation across all types of interests in other entities.

(f) IFRS 12 – Disclosure of Interests in Other Entities – This standard supplements existing disclosure requirements about interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Unaudited (in thousands except share and per share amounts)

5. Segment information

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

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2012	2011		2011
Sales from				
United States	**$ 15,218**	$ 18,846	**$ 33,939**	$ 35,493
Canada	**2,856**	2,995	**5,044**	5,457
Other	**136**	26	**294**	242
	$ 18,210	$ 21,867	**$ 39,277**	$ 41,192

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 October 31,		Six Months Ended October 31,	
	2012	2011	**2012**	2011
Segment Sales				
Furniture	**$ 14,159**	$ 16,834	**$ 31,235**	$ 33,254
Movable walls and rollform	**4,051**	5,033	**8,042**	7,938
	$ 18,210	$ 21,867	**$ 39,277**	$ 41,192
Segment Operating Profits (Losses)				
Furniture	**$ 140**	$ (494)	**$ 539**	$ (2,328)
Movable walls and rollform	**(17)**	212	**(347)**	(578)
	123	(282)	**192**	(2,906)
Unrealized loss (gain) on foreign exchange	**18**	(483)	**(24)**	(399)
Decrease in fair value of derivative assets	**228**	735	**405**	611
Investment income	**(102)**	(157)	**(170)**	(273)
Loss before taxes	**(21)**	(377)	**(19)**	(2,845)
Provision for income taxes	**(91)**	(133)	**(155)**	(911)
Net income (loss)	**$ 70**	$ (244)	**$ 136**	$ (1,934)

Unaudited (in thousands except share and per share amounts)

6. Earnings per share

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

	Three Months Ended October 31,	
Numerator	**2012**	2011
Net income (loss) for the quarter for basic and diluted earnings per share	**$ 70**	$ (244)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,375,599**	14,319,699
Dilution impact of stock options	**85,790**	123,352
Weighted average number of shares outstanding for diluted earnings per share	**14,461,389**	14,443,051

	Six Months Ended October 31,	
Numerator	**2012**	2011
Net income (loss) for the period for basic and diluted earnings per share	**$ 136**	$ (1,934)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,377,237**	14,534,988
Dilution impact of stock options	**56,925**	129,115
Weighted average number of shares outstanding for diluted earnings per share	**14,434,162**	14,664,103

323,427 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 October 31, 2012 (2012-219,018).

280,927 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 six-month period ended October 31, 2012 (2012-219,018).

7. Inventories

	October 31, 2012	April 30, 2012
Raw materials	**$ 3,573**	$ 3,113
Work-in-progress	**288**	370
Finished goods	**450**	810
	$ 4,311	$ 4,293

The cost of inventories recognized as cost of goods sold during the period was $12,403 (2012 - $15,807) for the three-month period and $27,546 for the six-month period (2012 - $31,622). There was an inventory write-down of $48 during the three-month period (2012 - $82). There was an inventory write-down of $48 during the six-month period (2012 - $128). There was no reversal of inventory write-down during the three-month and six-month periods.

Unaudited (in thousands except share and per share amounts)

8. Provisions

		Warranties (i)		NYWCB (ii)		**Total**
Balance at May 1, 2012	$	209	$	374	**$**	**583**
Additional provisions recognized		33		-		**33**
Reductions arising from payments		(78)		(64)		**(142)**
Reversal of unused amounts		(46)		-		**(46)**
Currency exchange loss		3		4		**7**
Balance at October 31, 2012	$	121	$	314	**$**	**435**
Current portion	$	121	$	42	**$**	**163**
Long-term portion		-		272		**272**
	$	121	$	314	**$**	**435**

(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 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.

In September 2012, at the request of the NYSWC, the Company signed an extension of the MOU to provide the NYSWC an additional six month interim funding from September 2012 to February 2013.

Unaudited (in thousands except share and per share amounts)

9. 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.

The following is a summary of the changes in issued and outstanding shares of the Company:

Issued and outstanding	May 1, 2012 Balance	Repurchase	**October 31, 2012 Balance**
Class A multiple voting	5,345,881		**5,345,881**
Class B subordinated voting	9,038,320	(11,000)	**9,027,320**
Total number of shares	14,384,201	(11,000)	**14,373,201**
Class A multiple voting	$ 375	$ -	**$ 375**
Class B subordinated voting	52,541	(63)	**52,478**
	$ 52,916	$ (63)	**$ 52,853**

The following is a summary of the changes in contributed surplus:

	October 31, 2012	April 30, 2012
Balance, beginning of the period	**$ 2,637**	$ 1,946
Share Repurchase:		
Book value of Class B shares repurchased	**63**	1,250
Fair value of Class B shares repurchased	**26**	549
Surplus on share repurchase	**37**	701
Share repurchase expenses	**-**	10
Net surplus on share repurchase	**37**	691
Balance, end of the period	**$ 2,674**	$ 2,637

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:

	October 31, 2012	April 30, 2012
Share Capital	**$ 52,853**	$ 52,916
Contributed Surplus	**2,674**	2,637
Deficit	**(3,148)**	(3,284)
	$ 52,379	$ 52,269

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 October 31, 2012, the Company had 4 U.S. dollar forward contracts with settlement dates from November 2012 to September 2013. The total nominal amounts under the contracts are U.S $28 million. Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.0 CAD/USD to $1.08 CAD/USD. These contracts had a mark-to-market net gain of U.S. $1.2 million, which was recognized on the consolidated statement of financial position as derivative assets. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the U.S. currency exchange rate, reclassification of the unrealized gains or losses to realized income or loss are recognized on the consolidated statement of operations as increase or decrease in fair value of derivative assets or liabilities of the period. The following reconciles the changes in the derivatives at the beginning and the end of the period:

Unaudited (in thousands except share and per share amounts)

10. Financial instruments (continued)

Fair value of derivative assets as at May 1, 2012	**$ 1,427**
Changes in fair value during the period:	
Fair value of contracts settled and realized	**(816)**
Increase in fair values	**287**
Fair value of new contracts added	**124**
Net decrease in fair value of derivative assets	**(405)**
Fair value of derivative assets as at October 31, 2012	**$ 1,022**

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 six-month period ended October 31, 2012, a 5% change in the Canadian dollar against the U.S. dollar would have approximately $240 impact on the Company's pre-tax earnings (2012 – approximately $536).

10.3 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the three-month ended July 31, 2012, each 100 basis point variation in the market interest rate is estimated to result in a change of $33 in the Company's interest income (2012 - $69).

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, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at October 31, 2012, the allowance for doubtful accounts was $146 (April 30, 2012 - $131).

Unaudited (in thousands except share and per share amounts)

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 (2012: 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).

	October 31, 2012		
	Level 1	**Level 2**	**Level 3**
Short-term investments	**$ 10,249**	**$ -**	**$ -**
Derivative assets	**-**	**1,022**	**-**
	$ 10,249	**$ 1,022**	**$ -**

	April 30, 2012		
	Level 1	Level 2	Level 3
Short-term investments	$ 9,387	$ -	$ -
Derivative assets	-	1,426	-
	$ 9,387	$ 1,426	$ -

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

11. Other long-term obligations

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

Unaudited (in thousands except share and per share amounts)

12. Related party transactions

Compensation of key management personnel

The following was the remuneration of directors and other members of key management personnel, including President and Chief Executive Officer, Chief Financial Officer, Executive VP Marketing and Product Development, VP Manufacturing and VP Human Resources (2012 – key management personnel included President and Chief Executive Officer, Chief Financial Officer, Executive VP Sales and Distribution, VP Manufacturing and VP Human Resources) .

	Three Months Ended October 31,		**Six Months Ended October 31,**	
	2012	2011		2011
Salaries and short-term benefits	**$ 250**	$ 348	**$ 731**	$ 721
Post-employment benefits	**3**	6	**7**	12
Share-based payment	**60**	162	**115**	326
	$ 313	$ 516	**$ 853**	$ 1,059