Condensed Interim Consolidated Financial Statements of

INSCAPE CORPORATION

(Unaudited)

January 31, 2017 and 2016

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

	Note	January 31, 2017	April 30, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**$ 5,197**	$ 5,989
Short-term investments		**5,246**	4,506
Trade and other receivables	8.4	**14,818**	11,225
Inventories	7	**7,020**	4,932
Income taxes receivable		**128**	89
Prepaid expenses		**1,129**	1,019
Derivative assets	8.2	**-**	416
		33,538	28,176
NON-CURRENT ASSETS			
Property, plant and equipment		**15,216**	16,038
Intangible assets		**1,877**	1,585
Derivative assets	8.2	**51**	290
Deferred tax assets		**695**	695
		$ 51,377	$ 46,784
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		**$ 12,995**	$ 12,596
DEFERRED TAX LIABILITIES		**1,203**	1,194
DERIVATIVE LIABILITIES	8.2	**330**	-
OTHER LONG-TERM OBLIGATIONS	9	**2,860**	1,195
RETIREMENT BENEFIT OBLIGATION		**5,460**	5,272
		22,848	20,257
CAPITAL AND RESERVES			
Issued capital		**52,868**	52,868
Contributed surplus		**2,675**	2,675
Accumulated other comprehensive loss		**(2,967)**	(3,054)
Deficit		**(24,047)**	(25,962)
		28,529	26,527
		$ 51,377	$ 46,784

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

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

Approved by the Board of Directors,

(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 January 31, 2017	Three Months Ended January 31, 2016	Nine Months Ended January 31, 2017	Nine Months Ended January 31, 2016
SALES	5	**$ 23,413**	$ 22,948	**$ 75,230**	$ 59,366
COST OF GOODS SOLD		**16,395**	16,615	**52,245**	44,771
GROSS PROFIT		**7,018**	6,333	**22,985**	14,595
EXPENSES					
Selling, general and administrative		**6,814**	6,763	**20,340**	19,306
Unrealized (gain) loss on foreign exchange		**211**	(489)	**(150)**	(845)
Unrealized (gain) loss on derivatives	8	**(1,790)**	2,240	**986**	2,869
Investment income		**(63)**	(24)	**(106)**	(108)
		5,172	8,490	**21,070**	21,222
INCOME (LOSS) BEFORE TAXES		**1,846**	(2,157)	**1,915**	(6,627)
INCOME TAXES	11	**-**	-	**-**	-
NET INCOME (LOSS)		**$ 1,846**	$ (2,157)	**$ 1,915**	$ (6,627)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	6	**$ 0.13**	$ (0.15)	**$ 0.13**	$ (0.46)

SUPPLEMENTAL INFORMATION

	Three Months Ended January 31, 2017	Three Months Ended January 31, 2016	Nine Months Ended January 31, 2017	Nine Months Ended January 31, 2016
Salaries, wages and benefits included in cost of goods sold	**$ 4,028**	$ 4,590	**$ 12,438**	$ 12,682
Salaries, wages and benefits included in selling, general and administrative	**4,559**	3,635	**11,521**	9,667
Total salaries, wages and benefits	**$ 8,587**	$ 8,225	**$ 23,959**	$ 22,349
Amortization included in cost of goods sold	**$ 393**	$ 473	**$ 1,165**	$ 1,391
Amortization included in selling, general and administrative	**297**	274	**837**	715
Total amortization	**$ 690**	$ 747	**$ 2,002**	$ 2,106

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

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

	Three Months Ended January 31, 2017	Three Months Ended January 31, 2016	Nine Months Ended January 31, 2017	Nine Months Ended January 31, 2016
NET INCOME (LOSS)	**$ 1,846**	$ (2,157)	**$ 1,915**	$ (6,627)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to earnings				
Exchange gain (loss) on translating foreign operations	**(164)**	351	**87**	667
OTHER COMPREHENSIVE INCOME (LOSS)	**(164)**	351	**87**	667
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ 1,682**	$ (1,806)	**$ 2,002**	$ (5,960)

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INSCAPE CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited) (in thousands of Canadian dollars)

			Accumulated Other Comprehensive Income (Loss) ("AOCI")			
Period Ended January 31, 2017	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2016	**$ 52,868**	**$ 2,675**	**$ (3,922)**	**$ 868**	**$ (25,962)**	**$ 26,527**
Net Income	**-**	**-**	**-**	**-**	**1,915**	**1,915**
Other Comprehensive Income	**-**	**-**	**-**	**87**	**-**	**87**
Total Comprehensive Income	**-**	**-**	**-**	**87**	**1,915**	**2,002**
BALANCE - January 31, 2017	**$ 52,868**	**$ 2,675**	**$ (3,922)**	**$ 955**	**$ (24,047)**	**$ 28,529**

			Accumulated Other Comprehensive Income (Loss) ("AOCI")			
Period Ended January 31, 2016	**Share Capital**	**Contributed Surplus**	**Cumulative Remeasurement of Defined Benefit Liabilities**	**Cumulative Translation gain**	**Deficit**	**Total Shareholders' Equity**
BALANCE - May 1, 2015	$ 52,868	$ 2,675	$ (1,857)	$ 848	$ (24,708)	$ 29,826
Net Loss	-	-	-	-	(6,627)	(6,627)
Other Comprehensive Income	-	-	-	667	-	667
Total Comprehensive Income	-	-	-	667	(6,627)	(5,960)
BALANCE - January 31, 2016	$ 52,868	$ 2,675	$ (1,857)	$ 1,515	$ (31,335)	$ 23,866

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

	Note	Three Months Ended January 31, **2017**	Three Months Ended January 31, 2016	Nine Months Ended January 31, **2017**	Nine Months Ended January 31, 2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING ACTIVITIES					
Net Income (loss)		**$ 1,846**	$ (2,157)	**$ 1,915**	$ (6,627)
Items not affecting cash:					
Amortization and depreciation		**690**	747	**2,002**	2,106
Pension expense		**175**	554	**520**	898
Unrealized (gain) loss on short-term investments held for trading		**(69)**	61	**(118)**	207
Unrealized loss (gain) on derivatives	8.2	**(1,790)**	2,240	**986**	2,869
Share based compensation		**1,146**	245	**1,664**	302
Unrealized (gain) loss on foreign exchange		**211**	(489)	**(150)**	(845)
Gain on disposal of capital assets		**-**	-	**(2)**	-
Employer's contribution to pension funds		**(171)**	(406)	**(424)**	(658)
Cash generated from (used for) operating activities before non-cash working capital		**2,038**	795	**6,393**	(1,748)
Movements in non-cash working capital					
Trade and other receivables		**(539)**	(1,044)	**(3,373)**	(2,943)
Inventories		**(1,543)**	(331)	**(2,049)**	(702)
Prepaid expenses		**236**	185	**(90)**	(359)
Accounts payable and accrued liabilities		**(1,595)**	1,700	**148**	2,957
Income tax receivables and payables		**(18)**	(2)	**(36)**	(20)
Cash generated from (used for) operating activities		**(1,421)**	1,303	**993**	(2,815)
INVESTING ACTIVITIES					
Short-term investments held for trading		**(597)**	1,059	**(622)**	5,155
Additions to property, plant and equipment & intangible assets		**(227)**	(366)	**(1,364)**	(1,681)
Proceeds from disposal of capital assets		**-**	-	**2**	-
Cash generated from (used for) investing activities		**(824)**	693	**(1,984)**	3,474
Unrealized foreign exchange gain (loss) on cash and cash equivalents		**(74)**	184	**199**	336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,319)**	2,180	**(792)**	995
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**7,516**	2,007	**5,989**	3,192
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 5,197**	$ 4,187	**$ 5,197**	$ 4,187
CASH AND CASH EQUIVALENTS CONSIST OF:					
Cash		**$ 4,935**	$ 3,390	**$ 4,935**	$ 3,390
Cash equivalents		**262**	797	**262**	797
		$ 5,197	$ 4,187	**$ 5,197**	$ 4,187

The accompanying notes are an integral part of these condensed interim consolidated 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, 2016.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 9, 2017.

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's judgment and review of any known exposures, customer creditworthiness, and collection experience.

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

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

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

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

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

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

4. Future Accounting Policy Changes

The following new standards, amendments, and interpretations that have been issued are expected to impact the Company, but are not effective for the fiscal year ending April 30, 2017, and accordingly, have not been applied in preparing the interim financial statements. The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

IFRS 2 Share-based Payments:
In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature, and a modification to the terms and conditions that changes the classification of the transactions. These amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 9 Financial Instruments:
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which united the various phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement as follows:

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements for expected credit losses and credit risk.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The standard also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The standard is effective for reporting periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

Unaudited (in thousands except share and per share amounts)

IFRS 15 Revenue from Contracts with Customers:
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It outlines a single comprehensive model on the core principle that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also contains enhanced disclosure requirements on the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and though permitted, has not been adopted early.

In April 2016, the IASB published clarifications to IFRS 15 which address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018, and though permitted, have not been adopted early.

IFRS 16 Leases:
In January 2016, the IASB issued IFRS 16 Leases, specifying the recognition, measurement, presentation and disclosure requirements of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and though permitted, has not been adopted early.

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 January 31		Nine Months Ended January 31	
	2017	2016	**2017**	2016
Sales from				
United States	**$ 22,374**	20,566	**$ 71,691**	$ 53,863
Canada	**942**	2,382	**3,423**	5,503
Other	**97**	-	**116**	-
	$ 23,413	$22,948	**$ 75,230**	$ 59,366

Unaudited (in thousands except share and per share amounts)

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.

	Three Months Ended January 31		Nine Months Ended January 31	
	2017	2016	**2017**	2016
Segment Sales				
Furniture	**$ 18,322**	$ 17,634	**$ 54,613**	$ 43,340
Movable walls and rollform	**5,091**	5,314	**20,617**	16,026
	$ 23,413	$ 22,948	**$ 75,230**	$ 59,366
Segment Income (Loss)				
Furniture	**$ 683**	$ 717	**$ 2,664**	$ (1,331)
Movable walls and rollform	**(479)**	(1,147)	**(19)**	(3,380)
	204	(430)	**2,645**	(4,711)
Unrealized gain (loss) on foreign exchange	**(211)**	489	**150**	845
Unrealized (loss) gain on derivatives	**1,790**	(2,240)	**(986)**	(2,869)
Investment income	**63**	24	**106**	108
Income (Loss) before taxes	**1,846**	(2,157)	**1,915**	(6,627)
Income taxes	**-**	-	**-**	-
Net Income (loss)	**$ 1,846**	$ (2,157)	**$ 1,915**	$ (6,627)

Segment income or loss represents the income 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.

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 January 31,	
Numerator	**2017**	2016
Net income (loss) for the quarter for basic and diluted earnings per share	**$ 1,846**	$ (2,157)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,380,701**	14,380,701
Dilution impact of stock options	**189,722**	247,060
Weighted average number of shares outstanding for diluted earnings per share	**14,570,423**	14,627,761

	Nine Months Ended January 31	
Numerator	**2017**	2016
Net income (loss) for the period for basic and diluted earnings per share	**$ 1,915**	$ (6,627)
Denominator		
Weighted average number of shares outstanding for basic earnings per share	**14,380,701**	14,380,701
Dilution impact of stock options	**150,301**	285,171
Weighted average number of shares outstanding for diluted earnings per share	**14,531,002**	14,665,872

For the three-month period ended January 31, 2017, all potential shares are included in the weighted average number of shares for the purpose of diluted earnings per share calculation (2016 – 142,566 potential shares are anti-dilutive and they are excluded from the weighted average number of shares calculation).

For the nine-month period ended January 31, 2017, 180,218 potential shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of diluted loss per share calculation (2016 – 105,066 potential shares are anti-dilutive and they are excluded from the weighted average number of shares calculation).

7. Inventories

	January 31, 2017	April 30, 2016
Raw materials	**$ 4,457**	$ 3,244
Work-in-progress	**388**	393
Finished goods	**2,175**	1,295
	$ 7,020	$ 4,932

The cost of inventories recognized as cost of goods sold was $15,514 (2016 - $15,434) for the three-month period and $48,260 (2016 - $41,047) for the nine-month period ended January 31, 2017.

There was an inventory write-down of $121 (2016 - $35) during the three-month period and $174 (2016 - $83) during the nine-month period ended January 31, 2017.

Unaudited (in thousands except share and per share amounts)

8. Financial instruments

8.1 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, 2017		April 30, 2016
Issued capital	**$**	**52,868**	$	52,868
Contributed surplus		**2,675**		2,675
Deficit		**(24,047)**		(25,962)
	$	**31,496**	$	29,581

The Company manages its capital structure and makes modifications in response to changes in economic conditions and the risks associated with the underlying strategic initiatives. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, or draw on its line of credit.

8.2 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, 2017, the Company had outstanding U.S. dollar hedge contracts with settlement dates from February 2017 to October 2018. The total nominal amounts under the contracts are U.S $40,800 to $51,000 (January 31, 2016 - $47,400 to $59,250). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from $1.2525 CAD/USD to $1.3040 CAD/USD (January 31, 2016 - $1.11 CAD/USD to $1.40 CAD/USD). These contracts had a mark-to-market net loss of $279 (USD. $215) (January 31, 2016 loss of $6,815, USD $4,866), which was recognized on the consolidated statement of financial position as derivative liabilities and assets. Changes in the hedge contracts' mark-to-market values 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)

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

	Nine Months Ended January 31	
	2017	2016
Fair value of derivative assets (liabilities), beginning of period	**$ 706**	$ (3,945)
Changes in fair value during the period:		
Decrease in fair value of new contracts added	**(401)**	(448)
Reversal of derivative (assets) liabilities of contracts settled	**(324)**	2,961
Decrease in fair values of outstanding contracts	**(260)**	(5,383)
Net increase in fair value of derivative liabilities recognized during the period	**(985)**	(2,870)
Fair value of derivative liabilities, end of period	**$ (279)**	$ (6,815)
Current assets (liabilities)	**$ 51**	$ (5,184)
Long-term liabilities	**(330)**	(1,631)
Net derivative liabilities	**$ (279)**	$ (6,815)

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 nine-month period ended January 31, 2017, a 5% change in the Canadian dollar against the U.S. dollar would have an impact of approximately $307 on the Company's pre-tax earnings (2016 – $511).

8.3 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 nine-month period ended January 31, 2017, each 100 basis point variation in the market interest rate is estimated to result in a change of $30 in the Company's investment income (2016 - $45).

8.4 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.

Unaudited (in thousands except share and per share amounts)

Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at January 31, 2017, the allowance for doubtful accounts was $646 (April 30, 2017 - $609).

8.5 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company is debt-free and has access to financing facilities which were unused at the end of the reporting period (2016: unused). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

8.6 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, 2017	**Level 1**	**Level 2**	**Level 3**
Short-term investments	**$ 5,246**	**$ -**	**$ -**
Derivative liabilities	**-**	**(279)**	**-**
	$ 5,246	**$ (279)**	**$ -**

April 30, 2016	Level 1	Level 2	Level 3
Short-term investments	$ 4,506	$ -	$ -
Derivative assets	-	706	-
	$ 4,506	$ 706	$ -

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

Unaudited (in thousands except share and per share amounts)

9. Other long-term obligations

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

	January 31, 2017	April 30, 2016
Deferred Share Units	**$ 719**	$ 322
Stock Options	**1,843**	780
Restricted Share Units	**298**	93
	$ 2,860	$ 1,195

10. 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, Senior VP Sales, VP Operations, VP Product Development and VP Human Resources.

	Three Months Ended January 31,		Nine Months Ended January 31	
	2017	2016	**2017**	2016
Salaries and short-term benefits	**$ 517**	$ 427	**$ 1,547**	$ 1,306
Post-employment benefits	**3**	4	**11**	14
Share-based compensation	**1,346**	224	**1,815**	285
	$ 1,866	$ 655	**$ 3,373**	$ 1,605

During the period, the Company incurred expenses to a related party for goods and services associated with the Company's strategic initiatives. The entity is deemed a related party because an Executive Officer of the Company is a shareholder of that entity. The relationship provides the Company immediate resources to implement new initiatives. The expense incurred was $25 for the three-month period (2016 - $15) and $110 for the nine-month period ended January 31, 2017 (2016 - $115).

11. Income taxes

At the previous fiscal year ended April 30, 2016 the Company recorded a valuation allowance of $6,987 to derecognize the future income tax benefit of loss carryforwards as deferred tax assets. For the nine-month period ended January 31, 2017, $1,462 of the $6,987 valuation allowance was utilized to reduce the Company's income tax expense.

12. 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 January 31, 2017 (January 31, 2016 – nil).