

2018



ANNUAL  
REPORT

inscape



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# Financial Highlights

(in thousands, except for per share amounts)

<b>Years Ended April 30</b>	<b>2018</b>	<b>2017</b>
Sales	\$ 93,936	\$ 95,295
Net loss	\$ (2,992)	\$ (172)
Basic and diluted loss per share	\$ (0.21)	\$ (0.01)
Adjusted net (loss) income before taxes	\$ (5,334)	\$ 4,041
EBITDA	\$ (2,454)	\$ 6,622
Total assets	\$ 44,582	\$ 46,870
Total liabilities	\$ 18,255	\$ 19,066
Weighted average number of shares for basic and diluted EPS	14,380,701	14,380,701
Cash, cash equivalents, and short-term investments	\$ 8,994	\$ 11,514

# Letter to the Shareholders

Despite the challenging environment, we remain committed to executing our strategic plan and making investments in sales, marketing and product development to grow sales and earnings. These investments lay the foundation for growth and are expected to provide benefits in the new fiscal year.

Our financial position remains strong and we enter our new fiscal year with a focus on operational execution to support our sales, marketing and product development efforts.

We thank our leadership team, employees, and partners for their commitment and our Board of Directors for their ongoing guidance and support.



Bartley Bull,  
Chair of the Board



Brian A. Mirsky,  
Director and Chief Executive Officer











# Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") of operating results and financial condition of Inscape Corporation and its subsidiaries ("Inscape" or "the Company") for the year ended April 30, 2018 should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended April 30, 2018 and 2017.

The discussion and analysis are as of July 17, 2018 unless otherwise stated.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on our website [www.inscapesolutions.com](http://www.inscapesolutions.com).

## Non GAAP Measures

In this MD&A, reference is made to EBITDA, which is not a measure of financial performance under International Financial Reporting Standards ("IFRS"). Inscape calculates EBITDA as earnings before interest, taxes, depreciation and amortization with the exclusion of share-based compensation, severance and unrealized derivative and foreign exchange gains or losses. Management believes EBITDA is a useful measure that facilitates period-to-period operating comparisons and we believe some investors and analysts use it as well. This measure, as calculated by Inscape, does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other issuers.

Reference is also made to adjusted net income or loss before taxes which excludes derivative fair value adjustments, unrealized exchange gains or losses and non-recurring expenses. Management believes adjusted net income or loss is a useful measure that facilitates period-to-period operating comparisons. The adjusted net income or loss before taxes is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

## Forward-looking Statements

This report includes certain forward-looking statements that are based on the Company's best information and judgments as at the date of this report. Readers are cautioned not to place undue reliance on forward-looking statements found throughout this document. These forward-looking statements are based on our plans, intentions or expectations which are based on, among other things, assumptions about the rate of economic growth in North America, growth expectations for the contract office furniture business and currency fluctuations.

These forward-looking statements include known and unknown risks, uncertainties, assumptions and other factors which may cause actual results or achievements to be materially different from those expressed or implied. The forward-looking statements are subject to risks and uncertainties that may cause the actual results to differ materially from those anticipated in the discussion (see "Risks and Uncertainties" for more information).

While management believes that the expectations expressed by such forward-looking statements are reasonable, we cannot assure that they will be correct. In evaluating forward-looking information and statements, readers should carefully consider the various factors which could cause actual results or

events to differ materially from those indicated in the forward-looking information and statements. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the Company will update its disclosure upon publication of each fiscal quarter's financial results and otherwise disclaims any obligations to update publicly or otherwise revise any such factors or any of the forward-looking information or statements contained herein to reflect subsequent information, events or developments, changes in risk factors or otherwise.

## Company Profile and Core Business

Inscape Corporation 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 and headquarters is at 67 Toll Road, Holland Landing, Ontario, Canada.

Inscape is a design enabler. We have been saying yes since 1888 with a versatile portfolio of systems, storage, and walls products that are adaptable, and always built to last. With a wide dealer network, showrooms in both Canada and the U.S., and full service and support for all of our clients, our philosophy is to always do what we can to say Yes.

The Company reports in two business segments: the Office Furniture segment includes storage, benching, systems and seating solutions. The Inscape Walls segment includes architectural and movable walls. Inscape's products are manufactured in two facilities: a 306,000 square foot plant in Holland Landing, Ontario, and a 132,000 square foot plant in Falconer, New York. The Company also operated a West Elm Workspace office and distribution center in Grand Rapids, Michigan to the end of April 2018. The West Elm Workspace products will no longer be offered by Inscape after June 30th, 2018 as the distribution agreement has been terminated. Inscape serves its clients through a network of dealers and representatives supported by showrooms across North America.

## Vision and Strategy

In fiscal 2018, Management implemented five key strategic initiatives which focus on building a strong foundation for future growth. These are:

- Focus the Portfolio
- Develop the Inscape Brand
- Build Distribution
- Improve Capacity Utilization
- Build Capability

**Focus the Portfolio:** Invest in new product development in high growth and high profit product categories. Review existing portfolio of product categories to determine long term viability.

**Develop the Inscape Brand:** Develop unique selling proposition, increase awareness with Architects and Designers and improve the website experience.

**Build Distribution:** Focus investment in high opportunity and high margin markets. Continue to develop strong Dealer presence in these markets to drive sales growth. Increase proportion of larger customers which provide recurring annual sales.

**Improve Capacity Utilization:** Improve manufacturing efficiencies and other costs related to product fulfillment. Conduct product rationalization analysis to identify products that are either not profitable or have low sales volume.

**Build Capability:** Encompasses implementing business process improvements and technology to enhance performance and improving talent base.

In fiscal 2018, the company exited an unprofitable business unit which contributed \$12.4 million in net sales however produced an EBITDA loss of \$2.7 million. By reallocating resources to its core business, the company can focus on selling products which are more profitable.

Inscape also completed a study and developed a plan for its two plants to improve manufacturing efficiencies. The plan is being implemented and is expected to be completed in the second quarter of fiscal 2019 and generate annual savings in excess of \$1.0 million. The company is currently evaluating further opportunities to improve manufacturing efficiencies, reduce fixed cost overheads and improve profitability.

These strategic initiatives are creating a strong foundation for growth of the Company. In fiscal 2018 we made progress on all five initiatives and we have started to see positive benefits from the initiatives and expect additional benefits in fiscal 2019.



## Overview

### Fiscal year 2018 compared to fiscal year 2017

Fiscal year 2018 sales decreased by \$1.3 million or 1.4% compared to the prior year. Both the Furniture and Walls business units contributed to the decline in sales. In fiscal 2017, the Company benefited from 2 large non recurring projects totaling \$5 million. If we normalize sales and exclude the non recurring sales, fiscal 2018 sales would have shown growth of 4% over the prior year which is in line with industry growth. The Company increased its investment in sales, marketing and product development initiatives to grow sales however the benefits from these investments will not be realized until fiscal 2019.

In fiscal year 2018, the Company incurred a net loss of \$3.0 million or 21 cents per share, compared to a net loss of \$0.2 million, or 1 cent per share a year ago. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2018 had an adjusted net loss before taxes of \$5.3 million compared with last year's adjusted net income before taxes of \$4.0 million. Losses incurred from an unprofitable business unit, unfavourable sales mix and incremental investments in sales, marketing and product development initiatives accounted for the majority of the increase in adjusted net loss.

### Fiscal year 2017 compared to fiscal year 2016

Sales increased \$ 15.4 million or 19.3% compared to fiscal year 2016 as a result of growth in all business segments and favourable U.S. currency hedge contracts rates. Sales growth in fiscal 2017 driven by two large non recurring projects totalling \$5 million.

In fiscal year 2017, the company incurred a net loss of \$0.2 million or 1 cent per share, compared to a net loss of \$1.3 million or 9 cents per share a year ago. Both reporting periods included unrealized derivative losses or gains relating to fair value of outstanding derivative contracts and other unusual items, which have a significant impact on the reported net income or loss. With the exclusion of these items, fiscal year 2017 had an adjusted net income of \$3.3 million, compared with previous year adjusted net loss of \$5.0 million, an improvement of \$ 8.3 million mainly due to higher sales volume, favourable US currency hedge rates and favourable sales mix.

# Results of Operations

## Sales

(in thousands)	Fiscal 2018	Fiscal 2017	Change
3 months ended April 30	\$ 21,514	\$ 21,023	2.4%
Years ended April 30	\$ 93,936	\$ 95,295	-1.4%

Sales in the fourth quarter were 2.4% higher than the same quarter of last year. Strong Walls sales in the quarter accounted for the majority of the increase.

The fiscal 2018 annual sales of \$93.9 million were 1.4% lower than the previous year's sales of \$95.3 million. The decrease of \$1.4 million in sales occurred equally in the Furniture and Walls business units.

## Gross Profit

(in thousands)	Fiscal 2018		Fiscal 2017	
		% of sales		% of sales
3 months ended April 30	\$ 4,896	22.8%	\$ 5,564	26.5%
Years ended April 30	\$ 25,163	26.8%	\$ 28,549	30.0%

The fourth quarter gross profit as a percentage of sales of 22.8% was 3.7 percentage points lower than the same quarter of last year. Unfavourable sales mix and increase in product fulfillment costs contributed to the decline.

Fiscal year 2018 gross profit as a percentage of sales decreased 3.2 percentage points from last year's 30.0% to the current year's 26.8%. Higher operating costs associated with an unprofitable business unit, unfavourable sales mix and incremental investments in sales, marketing and product development initiatives accounted for the majority of the decline.

## Selling, General and Administrative Expenses (SG&A)

(in thousands)	Fiscal 2018		Fiscal 2017	
		% of sales		% of sales
3 months ended April 30	\$ 8,589	39.9%	\$ 5,992	28.5%
Years ended April 30	\$ 30,840	32.8%	\$ 26,332	27.6%

SG&A for the quarter was 39.9% of sales, compared with last year's 28.5%. The current quarter SG&A of \$8.6 million was \$2.6 million higher than the same quarter of last year due to costs associated with an unprofitable business unit, severance and incremental investments in marketing, sales coverage and supply chain initiatives.

SG&A for the year was 32.8% of sales versus 27.6% last year. The SG&A expense of \$30.8 million was \$4.5 million or 17.1% higher than last year, mainly due to incremental investments in marketing, sales coverage and supply chain initiatives.

## Net Loss

(in thousands)	Fiscal 2018		Fiscal 2017	
		% of sales		% of sales
3 months ended April 30	\$ (4,788)	-22.2%	\$ (2,087)	-9.9%
Years ended April 30	\$ (2,992)	-3.2%	\$ (172)	-0.2%

The fourth quarter net loss of \$4.8 million is higher than the net loss of \$2.1 million in the same quarter of last year. Both reporting periods had several unrealized, unusual and non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these items, the fourth quarter of fiscal 2018 had an adjusted net loss before taxes of \$3.9 million, compared with adjusted net loss before taxes of \$0.9 million in the same quarter of last year. The adjusted net loss before taxes of \$3.9 million in the quarter is inclusive of \$1.2 million of incremental investment in sales, marketing and product development. The quarter also included costs to exit an unprofitable business unit.

Fiscal year 2018 ended with a net loss of \$3.0 million, compared to a net loss of \$0.2 million in fiscal year 2017. Similar to the quarterly results, both reporting periods had several unrealized, unusual and mostly non-controllable items that in total had a very significant impact on the net loss. With the exclusion of these unusual items, the full year fiscal 2018 had an adjusted net loss before taxes of \$5.3 million compared to adjusted net income before taxes of \$4.0 million in the prior year. The adjusted full year net loss before taxes of \$5.3 million is inclusive of incremental investment in sales, marketing and product development of \$2.7 million and losses attributable to an unprofitable business unit.

The adjusted income or loss is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

## Net (Loss) Income Reconciliation

The following is a reconciliation of net income and loss calculated in accordance with GAAP to the non-GAAP measure:

(in thousands)	Three Months Ended April 30		Years Ended April 30	
	2018	2017	2018	2017
<b>Net loss before taxes</b>	<b>\$ (5,205)</b>	<b>\$ (2,087)</b>	<b>\$ (3,409)</b>	<b>\$ (172)</b>
<b>Adjust non-operating or unusual items:</b>				
Unrealized loss (gain) on derivatives	<b>1,809</b>	1,937	<b>(2,566)</b>	2,923
Unrealized (gain) loss on foreign exchange	<b>(287)</b>	(255)	<b>363</b>	(405)
(Increase) Decrease in fair value of short-term investments	<b>20</b>	(32)	<b>20</b>	(150)
Stock based compensation	<b>(342)</b>	(507)	<b>(635)</b>	1,556
Severance obligation	<b>106</b>	63	<b>893</b>	297
<b>Adjusted net (loss) income before taxes</b>	<b>\$ (3,899)</b>	<b>\$ (881)</b>	<b>\$ (5,334)</b>	<b>\$ 4,049</b>

### Income Tax

In accordance with IFRS requirements, deferred tax benefits relating to tax loss carry-forward were not recognized during fiscal 2018. See notes to the consolidated financial statements which includes a reconciliation of the income tax expense and valuation allowance.

### Investment Income

The Company earned interest income and dividends from short-term investments of its excess cash in money market instruments and preferred shares. The investments generated investment income of \$0.1 million in fiscal year 2018 and fiscal year 2017.

## Summary of Quarterly Results

Selected unaudited quarterly financial information for the previous eight quarters from July 31, 2016 through April 30, 2018 is provided below:

### Selected Quarterly Information

(in thousands, except for per share amounts) (Unaudited)

	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017
Sales	\$ 21,514	\$ 25,906	\$ 23,209	\$ 23,307
Gross profit	\$ 4,896	\$ 7,009	\$ 6,065	\$ 7,193
Gross profit %	22.8%	27.1%	26.1%	30.9%
Net (loss) income	\$ (4,788)	\$ 1,300	\$ (2,562)	\$ 3,058
Basic and diluted (loss) income per share	\$ (0.33)	\$ 0.09	\$ (0.18)	\$ 0.21
Adjusted net (loss) before taxes	\$ (3,899)	\$ (286)	\$ (734)	\$ (415)
EBITDA	\$ (2,751)	\$ 292	\$ (158)	\$ 163

	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016
Sales	\$ 21,023	\$ 23,161	\$ 27,543	\$ 23,569
Gross profit	\$ 5,564	\$ 7,018	\$ 9,116	\$ 6,851
Gross profit %	26.5%	30.3%	33.1%	29.1%
Net income (loss)	\$ (2,087)	\$ 1,846	\$ 1,596	\$ (1,527)
Basic and diluted income (loss) per share	\$ (0.15)	\$ 0.13	\$ 0.11	\$ (0.11)
Adjusted net income (loss) before taxes	\$ (881)	\$ 1,790	\$ 2,952	\$ 188
EBITDA	\$ (196)	\$ 2,417	\$ 3,612	\$ 797

Quarterly earnings per share may not add up to year-to-date earnings per share due to rounding.

## Liquidity and Capital Resources

Three Months Ended April 30		
Cash Flow Summary (in thousands)	Fiscal 2018	Fiscal 2017
<b>Net cash flow generated from (used in):</b>		
Operating activities before changes in working capital	\$ (2,951)	\$ (988)
Net change in working capital	2,953	2,197
Investing activities	(510)	614
Foreign exchange gain on cash and cash equivalents	212	216
Net (decrease) increase in cash and cash equivalents	(296)	2,039
Cash and cash equivalents, beginning of period	5,676	5,197
Cash and cash equivalents, end of period	\$ 5,380	\$ 7,236

Twelve Months Ended April 30		
Cash Flow Summary (in thousands)	Fiscal 2018	Fiscal 2017
<b>Net cash flow generated from (used in):</b>		
Operating activities before changes in working capital	\$ (3,942)	\$ 5,405
Net change in working capital	3,160	(3,203)
Investing activities	(688)	(1,370)
Foreign exchange (loss) gain on cash and cash equivalents	(386)	415
Net (decrease) increase in cash and cash equivalents	(1,856)	1,247
Cash and cash equivalents, beginning of year	7,236	5,989
Cash and cash equivalents, end of year	\$ 5,380	\$ 7,236

The fourth quarter cash outflow from operations (before changes in working capital) was \$2.9 million compared to the previous year outflow of \$1.0 million. Higher operating losses from an unprofitable business unit and incremental investments in SG&A resulted in the outflow from operations. Net increase in working capital of \$2.9 million consisted primarily of higher accounts receivable due to increased sales activity at the end of the fourth quarter. Cash outflow of \$0.5 million from investing activities was comprised of capital expenditures.

On an annual basis, fiscal 2018 cash outflow from operations (before changes in working capital) was \$3.9 million, compared to a cash inflow of \$5.4 million in the previous year. Higher operating losses primarily from an unprofitable business unit and incremental investments in SG&A accounted for the majority of the outflow. Net increase in working capital of \$3.2 million consisted of higher accounts payable due to raw material purchases to fund increase in sales. Cash outflow of \$0.7 million from investing activities consisted of \$1.4 million spend in capital expenditures partially offset by \$0.7 million funding from money market instruments.

## Credit Facility

The Company has a demand operating credit facility of \$10 million and a demand credit facility for foreign exchange contracts of US \$10 million with its bank. The interest rate on the demand operating credit facility is Prime Rate plus 0.25% for Canadian dollar loans, US Base Rate plus 0.25% for US dollar loans and 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's personal property.

The credit facility agreement has the following covenants:

1. The ratio of "total liabilities less postponed debt to shareholders' equity less intangible assets" does not exceed 1.4 to 1.0, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.5 to 1.0, measured quarterly.

The Company was in compliance with the covenants as at April 30, 2018.

The Company has not drawn on the demand operating and foreign exchange contracts credit facilities.

## Contractual Obligations

The following is a summary of the Company's contractual obligations as at April 30, 2018:

(in millions)	Payments Due By Period				
	Total	1 year or less	1–3 years	3–5 years	After 5 years
Operating leases	\$ 6.1	\$ 1.3	\$ 2.8	\$ 0.9	\$ 1.1
Foreign exchange contracts	57.2	47.7	9.5	-	-
	\$ 63.3	\$ 49.0	\$ 12.3	\$ 0.9	\$ 1.1

Operating leases are in respect of various real properties that the Company leases. See "Financial Instruments" discussed below for the Company's obligations for foreign exchange contracts.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than the ones discussed above.

## Share Capital

The Company has 5,345,881 Class A multiple voting shares and 9,034,820 Class B subordinated voting shares outstanding at April 30, 2018. The Class A multiple voting shares carry ten votes each. The Class B subordinated voting shares, which are listed on the Toronto Stock Exchange, carry one vote each.

On July 11, 2018 one of the Company's shareholders, Bhayana Management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis. Post conversion there are 3,345,881 Class A Multiple Voting Shares and 11,034,820 Class B Subordinated Voting Shares of Inscape Corporation issued and outstanding.



## Related Party Transactions

The following was the remuneration of directors and other members of key management personnel, including Chief Executive Officer, Chief Financial Officer, Senior VP Sales, VP Marketing, VP Operations, VP Product Development and VP Human Resources. Compensation of the Chief Executive Officer and two directors are paid through companies they control.

(in thousands)	Three Months Ended April 30		Years Ended April 30	
	2018	2017	2018	2017
Salaries and short-term benefits	\$ 758	\$ 466	\$ 2,370	\$ 2,013
Post-employment benefits	11	5	32	16
Share-based compensation	(343)	(438)	(510)	1,377
	\$ 426	\$ 33	\$ 1,892	\$ 3,406

During the year, the Company incurred expenses of \$42 (2017 – \$166) to a former related party for goods and services. The negative position of the share-based compensation has resulted from the decline in share price.

## Future Accounting Changes

### IFRS 2 share-based payments:

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payments, 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.

In preparation for adoption of the standard, Inscope has completed its assessment of the implications of implementing the new standard, and has concluded there will be no material transitional adjustment and the new standard will not have a significant impact on its consolidated financial statements. Inscope will adopt the standard beginning May 1, 2018.

### 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. IFRS 15 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. The standard provides a single, principle based five step model for recognizing revenue that applies to revenue earned from a contract with a customer. IFRS 15 also contains enhanced disclosure requirements including qualitative disclosures showing disaggregation of total revenue, information about performance obligations, and key judgments and estimates made.

Inscope will be implementing IFRS 15, using the modified retrospective approach where IFRS 15 will be applied to the 2019 results beginning May 1, 2018. With the exception of additional note disclosures, there is no significant impact to the Financial Statements as a result of adopting this standard.

## 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.

## Significant Accounting Policies and Estimates

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.

### Critical judgments

The following are the critical estimates and judgments that 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.

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.

Reserve for warranty is based on management's judgment, review of any known exposures and historical claim experience.

Percentage of Completion percentages are based on Inscape's onsite project management estimate of job progress.

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 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 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 and restricted share units is based on management's best estimate of the Company's financial performance during the vesting period of the performance and restricted 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.

### **Financial instruments**

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 strictly prohibited. Management reports to the Board of Directors quarterly the Company's investment portfolios to show their compliance with the investment policy. The counterparty of the Company's derivatives is a major Canadian bank. 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 the aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. The Company has historically experienced minimal customer defaults on trade accounts receivable.

The Company's U.S. dollar denominated cash, trade accounts receivable, accounts payable and accrued liabilities are subject to the risk that their fair values will fluctuate because of changes in U.S. dollar exchange rate relative to the Canadian dollar. The Company uses U.S. currency hedge instruments to manage its U.S. dollars exchange risk. The counterparty of the financial instruments is a major Canadian bank. The Company has a policy in place to ensure that all such instruments are used only to manage risk and not for trading purposes. The outstanding hedge instruments are marked to market at the balance sheet date. Unrealized gains and losses on the contracts are recorded as derivative assets and liabilities on the balance sheet and the change in fair value of the instruments is recognized in earnings in the period of change.

As at April 30, 2018, the Company had outstanding U.S. dollar hedge contracts with settlement dates from May 2018 to August 2019. The total notional amounts under the contracts are U.S. \$35,700 to \$44,675 (2017—\$48,000 to \$60,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.24 CAD/USD to \$1.45 CAD/USD (2017—\$1.25 CAD/USD to \$1.45 CAD/USD). These contracts had a mark-to-market unrealized gain of \$349 (U.S. \$272) as at April 30, 2018 (2017—unrealized loss of \$2,217 or US \$1,624), which was recognized on the consolidated statement

of financial position as derivative assets and liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the 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 unrealized gain or loss on derivatives of the year.

## **Risks and uncertainties**

The following risks and uncertainties may adversely affect the Company's business, operating results, cash flows and financial condition. These may not be the Company's only risks and uncertainties. Other unknown or currently insignificant risks and uncertainties not discussed below can have an adverse impact on the Company's business and financial performance.

### **General economic and market conditions**

Demand for office furniture is sensitive to general economic conditions such as the white-collar employment rate, corporate growth and profitability, government spending, office relocations and commercial property development. The Company manages to moderate the impact of this risk by increasing the differentiation of our products to attract new customers, the launching of new products to gain market share and enhancing the coverage of customers and designers.

### **Competitive environment**

Office furniture is a mature and highly competitive industry. Our main competitors include global companies with strong brand name recognition and capability to utilize offshore outsourcing. This competitive environment results in price pressure and limits certain distributors' ability to carry Inscape products along with those of the competitors. The Company competes on product design, functionality, innovation and customer service. Our success will depend on building a distribution network that is aligned with Inscape, targeting committed dealers who lead with Inscape's product lines and automating processes to keep improving our productivity, quality and customer service.

### **Raw material and commodity costs**

Fluctuations in raw material and commodity prices could have a significant impact on the Company's cost of sales and operating results. Since most of the raw materials and commodities used by the Company are not unique to the office furniture industry, their costs are often affected by supply and demand in other industries and countries. As a result, the Company may experience rising raw material and commodity costs that cannot be recovered from customers in a highly competitive environment. The Company manages its manufacturing costs by locking in supply contract prices,

improving production yields, reducing spoilage, focusing on quality control and overseas sourcing, where appropriate.

#### **U.S. dollar exchange rate**

The U.S. is the main market for the Company. Fluctuations in the U.S./Canadian dollar exchange rate have a significant impact on the operating results, cash flows and financial condition of the Company. One method the Company uses to manage its foreign currency exposure is through the use of U.S. dollar hedge instruments. The hedge instruments provide the Company with an opportunity to lock in the U.S. currency conversion rate at a prevailing hedge rate to facilitate the business planning process with pre-determined exchange rate exposure. However, the instruments do not completely eliminate the effects of exchange rate fluctuations. To minimize the effect of exchange rate fluctuations, the Company endeavors to create natural hedges through increasing U.S. suppliers where appropriate and seeks to increase Canadian dollar sales.

#### **Access to the U.S. markets**

The Company depends heavily on unrestricted access to the U.S. markets as a significant portion of the Company's sales is derived from there. The Company's business, operating results, cash flows and financial condition will be seriously affected if access to the U.S. markets is restricted due to political, social, economic or regulatory reasons. Buy America sentiment and regulations may deny the Company's chance in bidding contracts, especially with the government. The Company needs to monitor closely developments in

various U.S. statutes, regulations, procurement requirements and border crossing restrictions. Where appropriate, the Company publicizes its extensive investment in the U.S. and contribution to the economy by operating a production plant in New York State, providing employment opportunities in different states and purchasing from U.S. suppliers.

#### **Effectiveness of market representatives**

The Company relies on the effectiveness of independent market representatives to market our products to customers. A market representative may choose to terminate its relationship with us or the effectiveness of a market representative may decline. Disruption of the relationship or transition of an underperforming representative could have an adverse impact on our business in the affected market. The Company manages this risk by maintaining strong connection to performing representatives at the regional senior management level. The Company also assesses the effectiveness of the representatives on a regular basis.

#### **Effectiveness of growth strategy implementation**

The Company seeks to grow its business and market share by building committed distribution, developing products and applications to meet customer needs, and providing visualization tools to assist designers and clients with solutions for workspaces. Effective implementation of these strategies is essential to the future growth of the Company. The Company's sales and results of operations will be adversely affected if there are delays or difficulties in carrying out the strategies.

## **Controls and Procedures**

#### **Disclosure controls and procedures**

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of DC&P and have found that the Company's DC&P are effective at the financial year end.

#### **Internal control over financial reporting**

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of ICFR and have found that the Company's ICFR is effective in design and operation at the financial year end.

During the three months ended April 30, 2018, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

**Limitations of an internal control system**

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.









# Management Report

## To the Shareholders of Inscape Corporation

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of Management. The financial statements have been prepared in accordance with International Financial Reporting Standards and reflect Management's best estimates and judgments. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees Management in carrying out its responsibility for financial reporting and systems of internal control. The Audit Committee, which is composed of non-executive directors, meets regularly with Management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.



Brian A. Mirsky  
Director and Chief Executive Officer



Aziz Hirji  
Chief Financial Officer

July 17, 2018

# Independent Auditor's Report

## To the Shareholders of Inscape Corporation

We have audited the accompanying consolidated financial statements of Inscape Corporation, which comprise the consolidated statements of financial position as at April 30, 2018 and 2017, and the consolidated statements of operations and comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inscape Corporation as at April 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
July 17, 2018



# Inscape Corporation

## Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

ASSETS	Note	April 30, 2018	April 30, 2017
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 5,380	\$ 7,236
Short-term investments	5	3,614	4,278
Trade and other receivables	6	12,002	11,965
Inventories	7	6,741	5,092
Income taxes receivable		23	141
Prepaid expenses	8	927	1,234
Fair value of derivative financial assets	11.2	547	-
		<b>29,234</b>	<b>29,946</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	13,924	15,115
Intangible assets	10	1,414	1,809
Fair value of derivative financial assets	11.2	10	-
		<b>15,348</b>	<b>16,924</b>
<b>TOTAL ASSETS</b>		<b>\$ 44,582</b>	<b>\$ 46,870</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	\$ 14,022	\$ 10,080
Fair value of derivative financial liabilities	11.2	127	1,381
Provisions	13	328	59
		<b>14,477</b>	<b>11,520</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	13	591	-
Fair value of derivative financial liabilities	11.2	81	836
Retirement benefit obligation	14	2,839	4,734
Deferred tax liabilities	15	-	521
Other long-term obligations	16	267	1,455
		<b>3,778</b>	<b>7,546</b>
<b>TOTAL LIABILITIES</b>		<b>18,255</b>	<b>19,066</b>
<b>SHAREHOLDERS' EQUITY</b>			
Shareholders' capital	17	52,868	52,868
Contributed surplus		2,675	2,675
Accumulated other comprehensive loss		(90)	(1,605)
Deficit		(29,126)	(26,134)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>26,327</b>	<b>27,804</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 44,582</b>	<b>\$ 46,870</b>

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

*Bartley Bull.*

Bartley Bull, Chairman

*Eric Ehgoetz*

Eric Ehgoetz, Director

# Inscape Corporation

## Consolidated Statements of Operations

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

Years ended April 30	Note	2018	2017
<b>Sales</b>	20	\$ 93,936	\$ 95,295
<b>Cost of goods sold</b>	21	68,773	66,746
<b>Gross profit</b>		25,163	28,549
<b>EXPENSES</b>			
Selling, general and administrative	21	30,840	26,332
Unrealized loss (gain) on foreign exchange		363	(405)
Unrealized (gain) loss on derivatives	11.2	(2,566)	2,923
Investment income		(65)	(129)
		28,572	28,721
<b>Loss before taxes</b>		(3,409)	(172)
<b>Income taxes (recovery)</b>	15.1		
Current		105	-
Deferred		(522)	-
		(417)	-
<b>Net loss</b>		\$ (2,992)	\$ (172)
<b>Net Loss per share available to shareholders</b>	19		
Basic		\$ (0.21)	\$ (0.01)
Diluted		\$ (0.21)	\$ (0.01)

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

# Inscape Corporation

## Consolidated Statements of Comprehensive (Loss) Income

(in thousands of Canadian dollars)

Years ended April 30	2018	2017
<b>Net loss</b>	\$ (2,992)	\$ (172)
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>		
<b>Items that may not be reclassified to earnings</b>		
Remeasurement of defined benefit pension liabilities	14.2	1,953
<b>Items that may be reclassified to earnings</b>		
Exchange (loss) gain on translating foreign operations	(438)	459
Other comprehensive income	1,515	1,449
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>	\$ (1,477)	\$ 1,277

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



# Inscape Corporation

## Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)

	Share capital	Contributed surplus	Cumulative remeasurement of defined benefit liabilities	Cumulative translation gain	Deficit	Total shareholders' equity
<b>Balance – April 30, 2017</b>	<b>\$ 52,868</b>	<b>\$ 2,675</b>	<b>\$ (2,932)</b>	<b>\$ 1,327</b>	<b>\$ (26,134)</b>	<b>\$ 27,804</b>
Net loss	–	–	–	–	(2,992)	(2,992)
Other comprehensive income	–	–	1,953	(438)	–	1,515
<b>Balance – April 30, 2018</b>	<b>\$ 52,868</b>	<b>\$ 2,675</b>	<b>\$ (979)</b>	<b>\$ 889</b>	<b>\$ (29,126)</b>	<b>\$ 26,327</b>
Balance, April 30, 2016	\$ 52,868	\$ 2,675	\$ (3,922)	\$ 868	\$ (25,962)	\$ 26,527
Net loss	–	–	–	–	(172)	(172)
Other comprehensive income	–	–	990	459	–	1,449
Balance, April 30, 2017	\$ 52,868	\$ 2,675	\$ (2,932)	\$ 1,327	\$ (26,134)	\$ 27,804

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



# Inscape Corporation

## Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

Years ended April 30	Note	2018	2017
Net inflow (outflow) of cash related to the following activities:			
<b>Operating activities</b>			
Net loss		\$ (2,992)	\$ (172)
<b>Items not affecting cash:</b>			
Amortization and depreciation		2,532	2,710
Pension expense	14.2	647	765
Unrealized loss (gain) on short-term investments held for trading		20	(150)
Unrealized (gain) loss on derivatives	11.2	(2,566)	2,923
Share based compensation		(1,188)	260
Unrealized loss (gain) on foreign exchange		363	(405)
Loss (gain) on disposal of capital assets		217	(2)
Deferred tax (recovery)		(504)	-
Employer's contribution to pension funds	14.2	(471)	(524)
<b>Cash (used for) generated from operating activities before changes in working capital</b>		<b>(3,942)</b>	<b>5,405</b>
<b>Movements in non-cash working capital</b>			
Trade and other receivables		(600)	79
Inventories		(1,729)	(38)
Prepaid expenses		291	(176)
Accounts payable and accrued liabilities		4,229	(3,058)
Provisions		851	33
Income tax receivables and payables		118	(43)
<b>Cash (used for) generated from operating activities</b>		<b>(782)</b>	<b>2,202</b>
<b>INVESTING ACTIVITIES</b>			
Short-term investments held for trading		664	378
Additions to property, plant and equipment & intangible assets		(1,352)	(1,750)
Proceeds from disposal of capital assets		-	2
<b>Cash (used for) investing activities</b>		<b>(688)</b>	<b>(1,370)</b>
<b>Unrealized foreign exchange (loss) gain on cash and cash equivalents</b>		<b>(386)</b>	<b>415</b>
<b>Net cash (outflow) inflow</b>		<b>(1,856)</b>	<b>1,247</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		7,236	5,989
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<b>\$ 5,380</b>	<b>\$ 7,236</b>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>			
Cash		\$ 5,313	\$ 5,951
Cash equivalents		67	1,285
		<b>\$ 5,380</b>	<b>\$ 7,236</b>

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

# Notes to the consolidated financial statements for the years ended April 30, 2018 & April 30, 2017

## 1. General Information

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

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

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

## 2. Significant Accounting Policies

### 2.1 Statement of compliance with IFRS including comparatives

These consolidated financial statements have been prepared in accordance with International Financial Accounting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were prepared on a going concern assumption using the historical cost basis except for financial instruments. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on July 17, 2018.

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

to conform to the presentation adopted in the current period.

### 2.2 Basis of consolidation

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

### 2.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of dealer rebates.

#### 2.3.1 Sale of goods, installation services and shipping charges

Revenue from the sale of goods is recognized when the sales price is fixed or determinable, collection is reasonably assured, the costs incurred or to be incurred in respect of the sales can be measured reliably, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the significant risks and rewards of ownership of the goods have been transferred to the customers.

For sales involving products and installation service, revenue from the sale of goods is recognized when the goods are shipped, while revenue from the installation service is recognized by reference to the stage of completion of the service at the end of the reporting period.

Where shipping costs are billed to customers, the freight charges are net against freight costs and are presented as part of the cost of goods sold on the basis that the Company acts as agent of the customers in arranging shipping services for the customers.

#### 2.3.2 Investment income

Dividend income from investments is recognized when the Company's right to receive payment has been established, it is probable that the economic benefits will flow to the Company

and the amount of dividend can be measured reliably.

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of interest can be measured reliably.

## 2.4 Foreign currencies

The Canadian dollar is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are recognized at the average exchange rate for the month in which the transactions occurred, unless exchange rates fluctuated significantly during that period or for non-recurring transactions of material amounts, in which case the exchange rates at the dates of the transactions are used. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

For the Company's foreign operation where the Canadian dollar is its functional currency, the same policy described above is applied to the translation of its assets and liabilities for the purpose of presenting consolidated financial statements.

For the Company's foreign operation where the U.S. dollar is its functional currency, the assets and liabilities of the foreign operation for the purpose of presenting consolidated financial statements are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Exchange differences arising, if any, are recognized in other comprehensive income or loss and accumulated in equity until the disposal of the foreign operation, when all of the accumulated exchange differences in respect of that operation are reclassified to profit or loss. Revenues and expenses are translated into Canadian dollars at the average exchange rate for the month in which the transactions occurred, unless exchange rates fluctuated significantly during that period or for non-recurring transactions of material amounts, in which case the exchange rates at the dates of the transactions are used.

## 2.5 Employee future benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method.

Actuarial gains and losses and related taxes are recognized in other comprehensive income or loss as remeasurement of defined benefit liabilities.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The determination of a benefit expense requires assumptions such as the discount rate to measure obligations and the expected return on asset, the expected mortality rate and the expected rate of future compensation increases.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds and that have terms to maturity approximating the terms of the related pension liability.

## 2.6 Share-based compensation

For share-based compensation arrangement in which the term of the arrangement provides the employees and others providing similar services with the choice of settlement by equity instruments or in cash, the transaction is accounted for as a cash-settled share-based payment transaction.

For cash-settled share-based compensation, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. Under the stock option plan, the fair value is determined by using the Black-Scholes-Merton Option Pricing Model, which factors in the Company's estimate of the number of options that will eventually vest. Under the executives' long-term incentive plan and the deferred share unit plan, the fair value is based on the share price at the end of the reporting period as well as the Company's estimate of the number of shares that will eventually vest.

At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

## 2.7 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 2.7.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current

tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **2.7.2 Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### **2.8 Cash and cash equivalents**

Cash and cash equivalents include cash and liquid short-term investments in money market instruments with maturities of three months or less from the date of acquisition.

### **2.9 Short-term investments**

Short-term investments include liquid investments, such as Guaranteed Investment Certificates ("GICs"), preferred shares, bonds, in money market instruments with maturities greater than three months from the date of acquisition, measured at fair market value at the report date.

### **2.10 Trade receivables**

Trade receivables are amounts due from customers from the sale of goods or rendering of services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. The financial instrument designation for trade receivables is "loans and receivables". The Company maintains an allowance for impairment of trade receivables. The expense relating to doubtful accounts is included within "selling, general and administrative expense" in the statements of operations.

### **2.11 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

### **2.12 Earnings per share ("EPS")**

Basic earnings per common share is calculated using the weighted daily average number of common shares outstanding. Diluted earnings per share is calculated using the treasury stock method.

### **2.13 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized when property, plant and equipment is available for use so as to write off the cost less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation ceases at the earlier of when the asset or component is derecognized, or when it is held for sale or included in a group that is classified as held for sale.

Each component of an item of property, plant and equipment with a cost which is significant in relation to the total cost of the item and has a significantly different estimated useful life than the parent asset is depreciated separately. Component accounting is used for the Company's buildings.

### **2.14 Intangible assets**

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each year-end, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

### **2.15 Impairment of long-lived non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or group of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of the estimated future cash flows from the use of the asset (or cash-generating unit).

The discount rates used in the present value calculation are the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount is estimated to be less than the carrying amount of the asset (or cash-generating unit), the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. At the end of each reporting period, the Company reviews whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill (or cash-generating unit) may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset (or cash-generating unit) is estimated in order to determine whether the impairment loss should be reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 2.16 Inventories

Raw materials are measured at the lower of cost and net realizable value, determined on a first-in, first-out basis. Recoverable costs of raw materials that have no consumption over a period of eighteen months may be written down based on the Company's assessment of their future usage. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed. Work-in-progress and finished goods are measured at the lower of cost and net realizable value, determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost of work-in-progress and finished goods includes the cost of raw materials, the applicable share of the cost of labour, fixed and variable production overheads.

## 2.17 Leases

Leases are classified as finance or operating depending on the terms and conditions of the contracts. Leases which transfer substantially all the risks and ownership are classified as finance leases. An asset held under a finance lease is initially recognized at the inception of the lease at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation. Subsequent to its initial recognition, the costs are depreciated in accordance with the accounting policy of the applicable asset. Obligations recorded under finance leases are reduced

by lease payments, net of imputed interest. Interest expense is recognized in net earnings.

Leases that do not meet the criteria for finance leases are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

## 2.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## 2.19 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'loans and receivables' and 'available-for-sale' (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### 2.19.1 Financial assets at FVTPL (including held-for-trading investments)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

### 2.19.2 Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.



### 2.19.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of a reporting period, which are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

### 2.19.4 Available for sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale, or are not classified as loans and receivables or held-to-maturity investments, are not held for trading, and are not designated as financial assets at FVTPL on initial recognition. AFS assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income or loss and accumulated in the investments revaluation reserve. Impairment losses and interest calculated using the effective interest method are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

### 2.19.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When impairment has occurred, the loss is recognized in net earnings with the offset to reduce the asset's carrying value. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. In a subsequent period, if the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net earnings. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

### 2.20 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### 2.21 Classification of financial assets and liabilities

The following is the classification of the Company's financial assets and liabilities based on their characteristics and management's choices and intentions related to them:

Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Held for trading	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Derivative assets and liabilities	FVTPL	Fair value

The fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities approximates their carrying amounts because of the short-term maturity of these instruments.

### 2.22 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately since the derivatives are not designated as hedging instruments for hedge accounting.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Non-performance risk, including the Company's own credit risk, is considered when determining the fair value of financial instruments.

## 2.23 Share capital

Common shares issued by the Company are recorded in the amount of the proceeds received, net of direct issue costs.

## 3. Significant Accounting Judgments, Estimates and Assumptions

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 Significant 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.

## Significant 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.

Reserve for warranty is based on management's judgment, review of any known exposures and historical claim experience.

Percentage of Completion percentages are based on Inscape's onsite project management estimate of job progress.

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 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.

## Significant 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 and restricted share units is based on management's best estimate of the Company's financial performance during the vesting period of the performance and restricted 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. Accounting Standards Issued But Not Yet Effective

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, 2018, and accordingly, have not been applied in preparing the 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 Payments, 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.

In preparation for adoption of the standard, Inscope has completed its assessment of the implications of implementing the new standard, and has concluded there will be no material transitional adjustment and the new standard will not have a significant impact on its consolidated financial statements. Inscope will adopt the standard beginning May 1, 2018.

### 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. IFRS 15 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. The standard provides a single, principle based five step model for recognizing revenue that applies to revenue earned from a contract with a customer. IFRS 15 also contains enhanced disclosure requirements including qualitative disclosures showing disaggregation of total revenue, information about performance obligations, and key judgments and estimates made.

Inscope will be implementing IFRS 15, using the modified retrospective approach where IFRS 15 will be applied to the 2019 results beginning May 1, 2018. With the exception of additional note disclosures, there is no significant impact to the Financial Statements as a result of adopting this standard.

### 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. Short-term Investments

	April 30, 2018	April 30, 2017
Fixed income	\$ 3,614	\$ 3,639
Equities	-	639
	<b>\$ 3,614</b>	<b>\$ 4,278</b>

## 6. Trade and Other Receivables

	April 30, 2018	April 30, 2017
Trade account receivables, gross	\$ 12,061	\$ 12,374
Provision for bad and doubtful debts	(312)	(624)
	<b>11,749</b>	<b>11,750</b>
Other receivables	253	215
	<b>\$ 12,002</b>	<b>\$ 11,965</b>

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

	April 30, 2018	April 30, 2017
1–30 days	\$ 3,511	\$ 3,168
31–60 days	1,201	1,057
61–90 days	891	332
> 90 days	890	2,503
	<b>\$ 6,493</b>	<b>\$ 7,060</b>

## 7. Inventories

	April 30, 2018	April 30, 2017
Raw materials	\$ 4,595	\$ 3,775
Work-in-progress	409	446
Finished goods	1,737	871
	<b>\$ 6,741</b>	<b>\$ 5,092</b>

The cost of inventories recognized as cost of goods sold was \$64,826 (2017–\$63,350). During the year, there was an inventory write-down reversal of (\$107) (2017–write-down of \$512).

## 8. Prepaid Expenses

	April 30, 2018	April 30, 2017
Prepaid Expenses	\$ 716	\$ 985
Deposits	211	249
	<b>\$ 927</b>	<b>\$ 1,234</b>

## 9. Property, Plant and Equipment

April 30, 2018

	Land	Buildings/ Roof	Leasehold Improve- ments	Machinery and Equipment	Tools, dies and jigs	Office furniture and equipment	Capital projects in progress	Total
<b>Cost:</b>								
Opening balance-May 1, 2017	\$ 491	\$ 19,148	\$ 11,148	\$ 39,867	\$ 21,881	\$ 12,557	\$ 502	\$ 105,594
Additions			19	38	24	395	517	993
Transfers	-	-	-	-	-	111	(111)	-
Exchange differences	(11)	(240)	(17)	(77)	(45)	(37)	-	(427)
<b>Ending balance, April 30, 2018</b>	<b>480</b>	<b>18,908</b>	<b>11,150</b>	<b>39,828</b>	<b>21,860</b>	<b>13,026</b>	<b>908</b>	<b>106,160</b>
<b>Accumulated depreciation:</b>								
Opening balance-May 1, 2017	-	10,689	9,947	36,159	21,666	12,018	-	90,479
Depreciation charge for the year	-	405	384	631	117	454	-	1,991
Exchange differences	-	(94)	(11)	(51)	(41)	(37)	-	(234)
<b>Ending balance, April 30, 2018</b>	<b>-</b>	<b>11,000</b>	<b>10,320</b>	<b>36,739</b>	<b>21,742</b>	<b>12,435</b>	<b>-</b>	<b>92,236</b>
<b>Net book value, April 30, 2018</b>	<b>\$ 480</b>	<b>\$ 7,908</b>	<b>\$ 830</b>	<b>\$ 3,089</b>	<b>\$ 118</b>	<b>\$ 591</b>	<b>\$ 908</b>	<b>\$ 13,924</b>

April 30, 2017

	Land	Buildings/ Roof	Leasehold Improve- ments	Machinery and Equipment	Tools, dies and jigs	Office furniture and equipment	Capital projects in progress	Total
<b>Cost:</b>								
Opening balance-May 1, 2016	\$ 476	\$ 18,810	\$ 10,797	\$ 39,677	\$ 21,681	\$ 12,176	\$ 370	\$ 103,987
Additions	-	14	328	106	144	331	132	1,055
Disposals	-	-	-	(17)	-	-	-	(17)
Exchange differences	15	324	23	101	56	50	-	569
<b>Ending balance, April 30, 2017</b>	<b>491</b>	<b>19,148</b>	<b>11,148</b>	<b>39,867</b>	<b>21,881</b>	<b>12,557</b>	<b>502</b>	<b>105,594</b>
<b>Accumulated depreciation:</b>								
Opening balance-May 1, 2016	-	10,141	9,671	35,096	21,509	11,532	-	87,949
Depreciation charge for the year	-	423	262	1,011	103	436	-	2,235
Disposals	-	-	-	(17)	-	-	-	(17)
Exchange differences	-	125	14	69	54	50	-	312
<b>Ending balance, April 30, 2017</b>	<b>-</b>	<b>10,689</b>	<b>9,947</b>	<b>36,159</b>	<b>21,666</b>	<b>12,018</b>	<b>-</b>	<b>90,479</b>
<b>Net book value, April 30, 2017</b>	<b>\$ 491</b>	<b>\$ 8,459</b>	<b>\$ 1,201</b>	<b>\$ 3,708</b>	<b>\$ 215</b>	<b>\$ 539</b>	<b>\$ 502</b>	<b>\$ 15,115</b>

## 10. Intangible Assets

April 30, 2018

	Licensed Products	Computer Software	Intellectual Property	Total
<b>Cost:</b>				
Opening balance-May 1, 2017	\$ 122	\$ 10,793	\$ 831	\$ 11,746
Additions	-	359	-	359
Disposals	-	(916)	-	(916)
Exchange differences	-	(23)	(5)	(28)
<b>Ending balance, April 30, 2018</b>	<b>122</b>	<b>10,213</b>	<b>826</b>	<b>11,161</b>
<b>Accumulated amortization:</b>				
Opening balance-May 1, 2017	112	8,994	831	9,937
Amortization	10	524	-	534
Disposals	-	(699)	-	(699)
Exchange differences	-	(20)	(5)	(25)
<b>Ending balance, April 30, 2018</b>	<b>122</b>	<b>8,799</b>	<b>826</b>	<b>9,747</b>
<b>Net book value, April 30, 2018</b>	<b>\$ -</b>	<b>\$ 1,414</b>	<b>\$ -</b>	<b>\$ 1,414</b>

## 10. Intangible Assets (continued)

April 30, 2017

	Licensed Products	Computer Software	Intellectual Property	Total
<b>Cost:</b>				
Opening balance-May 1, 2016	\$ 122	\$ 10,067	\$ 825	\$ 11,014
Additions	-	695	-	695
Disposals	-	-	-	-
Exchange differences	-	31	6	37
<b>Ending balance, April 30, 2017</b>	<b>122</b>	<b>10,793</b>	<b>831</b>	<b>11,746</b>
<b>Accumulated amortization:</b>				
Opening balance-May 1, 2016	96	8,508	825	9,429
Amortization	16	459	-	475
Disposals	-	-	-	-
Exchange differences	-	27	6	33
<b>Ending balance, April 30, 2017</b>	<b>112</b>	<b>8,994</b>	<b>831</b>	<b>9,937</b>
<b>Net book value, April 30, 2017</b>	<b>\$ 10</b>	<b>\$ 1,799</b>	<b>\$ -</b>	<b>\$ 1,809</b>



## 11. Financial Instruments

### 11.1 Capital risk management

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

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

	April 30, 2018	April 30, 2017
Issued capital	\$ 52,868	\$ 52,868
Contributed surplus	2,675	2,675
Deficit	(29,126)	(26,134)
	\$ 26,417	\$ 29,409

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

See Note 23—Credit Facility for a description of the Company's externally imposed covenants.

### 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 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, 2018, the Company had outstanding U.S. dollar hedge contracts with settlement dates from May 2018 to August 2019. The total notional amounts under the contracts are U.S. \$35,700 to \$44,675 (2017—\$48,000 to \$60,000). Dependent on the spot CAD/USD rate on each settlement date, the Company can sell U.S. dollars at rates ranging from \$1.24 CAD/USD to \$1.45 CAD/USD (2017—\$1.25 CAD/USD to \$1.45 CAD/USD). These contracts had a mark-to-market unrealized gain of \$349 (U.S. \$272) as at April 30, 2018 (2017—unrealized loss of \$2,217 or US \$1,624), which was recognized on the consolidated statement of financial position as derivative assets and liabilities. Any changes in the net gain or loss from the prior reporting period due to addition of forward contracts, movements in the 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 unrealized gain or loss on derivatives of the year.

There were realized gains of \$293 on the settlement of contracts during fiscal year 2018 (2017-nil).

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

<b>Years Ended April 30</b>	<b>2018</b>	<b>2017</b>
<b>Fair value of derivative assets (liabilities), beginning of year</b>	<b>\$ (2,217)</b>	<b>\$ 706</b>
<b>Changes in fair value during the year</b>		
Decrease in fair value of new contracts added	(198)	(1,281)
Reversal of derivative assets (liabilities) of contracts settled	380	(416)
Increase (Decrease) in fair values of outstanding contracts	2,384	(1,226)
Net increase (decrease) in fair value of derivative assets recognized during the year	2,566	(2,923)
<b>Fair value of derivative assets (liabilities), end of year</b>	<b>\$ 349</b>	<b>\$ (2,217)</b>
Current	\$ 420	\$ (1,381)
Long-term	(71)	(836)
	<b>\$ 349</b>	<b>\$ (2,217)</b>

### 11.3 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, 2018, a 1% change in the Canadian dollar against the U.S. dollar would have an impact of approximately \$251 on the Company's pre-tax earnings (2017-\$500).

Based on the U.S. dollar denominated assets and liabilities as at April 30, 2018, a 1% change in the Canadian dollar against the U.S. dollar would have an impact of \$68 on the unrealized exchange gain or loss reported in the Consolidated Statements of Operations (2017-\$32) and an impact of \$222 on the Consolidated Statements of Comprehensive Income (Loss) (2017-\$174).

### 11.4 Interest rate risk management

The Company's cash equivalents and short-term investments are subject to the risk that interest income will fluctuate because of changes in market interest rates. The Company manages the interest rate risk by investing in highly liquid financial instruments with staggered maturity dates. For the year ended April 30, 2018, each 100 basis point variation in the market interest rate is estimated to result in a change of \$36 in the Company's investment income (2017-\$40).

### 11.5 Credit risk management

The Company's cash and cash equivalents, short-term investments, trade accounts receivable and derivative assets are subject to the risk that the counter-parties may fail to discharge their obligation to pay the Company. As at April 30, 2018, the Company's maximum direct exposure to credit risk is \$21,543 (2017-\$23,479).

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

The Company has credit policies and procedures to manage trade accounts receivable credit risk by assessing new customers' credit history, reviewing credit limits, monitoring aging of accounts receivable and establishing an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at April 30, 2018, the allowance for doubtful accounts was \$312 (April 30, 2017-\$624).

<b>Movement in the allowance for doubtful accounts</b>	<b>April 30, 2018</b>	<b>April 30, 2017</b>
Balance, beginning of year	\$ 624	\$ 609
Provisions (reduced) added	145	(28)
Amount written off	(437)	(7)
Currency exchange	(20)	50
Balance, end of year	\$ 312	\$ 624

### 11.6 Liquidity risk management

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

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

### 11.7 Fair value hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables illustrate the classification of financial assets (liabilities) in the fair value hierarchy:

<b>April 30, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Short-term investments	\$ –	\$ 3,614	\$ –
Derivative financial assets	–	349	–
Total net financial assets	\$ –	\$ 3,963	\$ –

<b>April 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Short-term investments	\$ 639	\$ 3,639	\$ –
Derivative financial assets (liabilities)	-	(2,217)	–
Total net financial assets	\$ 639	\$ 1,422	\$ –

## 12. Trade and Other Payables

	<b>April 30, 2018</b>	<b>April 30, 2017</b>
Trade accounts payable	\$ 4,022	\$ 1,820
Accrued liabilities	8,289	6,106
Sales tax payable	317	628
Other payables	1,394	1,526
	\$ 14,022	\$ 10,080

## 13. Provisions

Provisions due to warranty	April 30, 2018	April 30, 2017
Balance, beginning of year	\$ 59	\$ 27
Provisions made during the year	931	32
Provisions reversed and used during the year	(71)	-
Balance, end of year	\$ 919	\$ 59
<b>Current</b>	<b>328</b>	<b>59</b>
<b>Non-current</b>	<b>\$ 591</b>	<b>\$ -</b>

## 14. Retirement Benefit Obligation

### 14.1 Defined contribution plans

The Company operates a defined contribution retirement benefit plan for all qualifying employees. The assets of the plans are held separately from those of the Company in funds under the control of trustees. An actuarial valuation was prepared as at December 31, 2017.

The total expense recognized in the consolidated statements of operations of \$206 (2017–\$202) represents contributions made to the plan by the Company. The total employer's expected contribution to the plan for the upcoming fiscal year is anticipated to be approximately \$210.

### 14.2 Defined benefit pension plans

The Company operated one defined benefit pension plan for qualifying employees in Canada and one defined benefit pension plan for qualifying employees in the U.S. No other post-retirement benefits are provided to these employees.

The Canadian defined benefit pension plan is contributory in nature. The U.S. defined benefit plan is non-contributory and the accrued benefits were frozen in August 2013. The Canadian plan is registered under the Ontario Pension Benefits Act, RSO 1990 and the Income Tax Act. The U.S. plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Both plans are legally separate from the Company and are monitored by a pension committee. The pension committee is responsible for policy setting. The pension plans expose the Company to actuarial risk, currency risk, credit risk, interest rate risk and market risk.

Actuarial valuations are prepared at least every three years for the Canadian plan and every year for the U.S. plan. The most recent actuarial valuations were as at December 31, 2017 for the Canadian plan and July 1, 2016 for the U.S. plan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. Actuarial gains and losses are recognized immediately in other comprehensive income as a part of remeasurement. The total employer's expected contribution to the Canadian defined benefit plan for the upcoming fiscal year is anticipated to be approximately \$340. The expected contribution to the US plan for the upcoming fiscal year are approximately \$115.

Amounts recognized in the cost of goods sold and other comprehensive income in respect of these defined benefit plans are as follows:

	April 30, 2018	April 30, 2017
<b>Defined benefit plans</b>		
Benefits earned during the year	\$ 623	\$ 689
Participant contributions	(145)	(146)
Net interest cost	169	222
Pension expense recognized	\$ 647	\$ 765

	April 30, 2018	April 30, 2017
<b>Remeasurements of the net defined benefit liabilities</b>		
Actuarial gain due to actuarial experience	\$ 737	\$ 108
Actuarial gain (loss) due to financial assumption changes	651	(1,037)
Actuarial (loss) gain due to demographic assumption changes	(69)	123
Return on plan assets greater than discount rate	634	1,796
Remeasurements effects recognized in other comprehensive income	\$ 1,953	\$ 990

	April 30, 2018	April 30, 2017
<b>Cumulative actuarial losses relating to net defined benefit liabilities</b>		
Balance, beginning of the year	\$ (2,932)	\$ (3,922)
Remeasurements recognized in the year	1,953	990
Balance, end of the year	\$ (979)	\$ (2,932)

The significant actuarial assumptions used in measuring the accrued defined benefit pension plans obligations are as follows:

	2018	2017
Discount rate at year end	4.08% to 3.5%	4.04% to 3.5%
Rate of increase in future compensation	2.0%	2.0%



<b>Mortality Tables</b>	<b>2018</b>	<b>2017</b>
Canadian Plan	2014 CPM Private Sector Table	2014 Private Sector Table
U.S. Plan	RP – 2014 / MP-2017 (Society of Actuaries)	RP – 2014 / MP-2016 (Society of Actuaries)

A 1% increase in the discount rate would reduce the Canadian defined benefit obligation by approximately \$2,705 (2017–\$2,880) and a 1% decrease in the discount rate would increase the Canadian defined benefit obligation by approximately \$3,411 (2017–\$3,660).

A 1% increase in the discount rate would reduce the U.S. defined benefit obligation by approximately US \$561 (2017–U.S. \$622) and a 1% decrease in the discount rate would increase the U.S. defined benefit obligation by approximately US \$681 (2017–U.S. \$759).

The discount rates are based on a review of current market interest rates of AA corporate bond yields with a similar duration as the expected future cash outflows for the pension payments.

The amount included in the consolidated statements of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	<b>April 30, 2018</b>	<b>April 30, 2017</b>
<b>Defined benefit obligation, beginning of year</b>	<b>\$ 26,644</b>	<b>\$ 24,473</b>
Current service cost	624	689
Interest cost	943	970
Benefits and expenses paid	(900)	(921)
Actuarial (gain) loss	(1,319)	806
Foreign exchange rate changes	(453)	627
<b>Defined benefit obligation, end of year</b>	<b>\$ 25,539</b>	<b>\$ 26,644</b>
<b>Fair Value of plan assets, beginning of year</b>	<b>\$ 21,910</b>	<b>\$ 19,201</b>
Interest income	775	748
Employer contributions	471	524
Employee contributions	145	146
Benefits and expenses paid	(900)	(921)
Return on plan assets greater (less) than discount rate	634	1,796
Foreign exchange rate changes	(335)	416
<b>Fair value of plan assets, end of year</b>	<b>22,700</b>	<b>21,910</b>
<b>Defined benefit obligation, net end of year</b>	<b>\$ 2,839</b>	<b>\$ 4,734</b>

The major categories of plan assets at the end of the year are as follows:

	April 30, 2018	April 30, 2017
Equity securities	63%	65%
Debt securities	25%	26%
Cash and cash equivalents	12%	9%
Total	100%	100%

## 15. Income Taxes

### 15.1 Income tax recognized in profit or loss

During fiscal year 2018, the Company booked a valuation allowance relating to deferred tax assets. Due to the losses in the year and the effects of accounting losses in the previous three years, management deemed it appropriate to charge a valuation allowance for these assets. This adjustment is a non-cash charge to the results and the Company has 20 years in which the assets can be realized against future income, at which point the valuation allowance can be reversed.

Income tax comprises of:

Years ended April 30	2018	2017
Current	\$ 105	\$ 1,018
Deferred	1,935	(1,078)
	2,040	(60)
Valuation allowance	(2,457)	60
	\$ (417)	\$ –

The income tax provision and recovery for the years can be reconciled to the accounting loss as follows:

Years ended April 30	2018	2017
Loss before income taxes	\$ (3,409)	\$ (172)
Basic statutory income tax rate	25.26%	25.38%
	(861)	(44)
Reconciling items:		
Tax effect of non-taxable (non-recoverable items)	446	(190)
True-up	(2)	–
Canada/U.S. tax rate differences	(366)	174
Tax rate differential	2,570	–
Derecognition/recognition of deferred tax assets	(2,368)	60
Other	164	–
Income tax (recovery)	\$ (417)	\$ –

The Company's basic Canadian statutory income tax rate is the aggregate of the federal income tax rate of 15% (2017–15%) and the Ontario provincial tax rate of 10.26% (2017–10.38%). The basic U.S. statutory income tax rate is the aggregate of the federal income tax rate of 33% (2017–34%) and the average rate for various states of 4% (2017–6%).

## 15.2 Deferred tax assets and liabilities:

Deferred tax assets	April 30, 2017 balance	Recognized in profit or loss	Recognized in OCI	Exchange differences and other	April 30, 2018 balance
Deductible temporary difference					
Property, plant and equipment	\$ 930	\$ (256)	\$ -	\$ (57)	\$ 617
Retirement benefit obligation	821	(47)	(390)	(53)	331
Reserves	611	(77)	-	(49)	485
Less valuation allowance	(2,362)	380	390	159	(1,433)
	-	-	-	-	-
Tax benefit of loss carryforwards	4,987	(831)	-	(306)	3,850
Less valuation allowance	(4,987)	831	-	306	(3,850)
	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred tax liabilities	April 30, 2017 balance	Recognized in profit or loss	Recognized in OCI	Exchange differences and other	April 30, 2018 balance
Property, plant and equipment	\$ 817	\$ 71	\$ -	\$ -	\$ 888
Retirement benefit obligation	(682)	(38)	338	-	(382)
Derivative (liabilities) assets	(562)	651	-	-	89
Reserves	48	268	-	-	316
Tax benefit of capital loss	-	(30)	-	-	(30)
Loss carryforwards	(2,091)	(661)	-	-	(2,752)
Less valuation allowance	2,991	(782)	(338)	-	1,871
	\$ 521	\$ (521)	\$ -	\$ -	\$ -

Deferred tax assets	April 30, 2016 balance	Recognized in profit or loss	Recognized in OCI	Exchange differences and other	April 30, 2017 balance
Deductible temporary difference					
Property, plant and equipment	\$ 820	\$ 32	\$ -	\$ 78	\$ 930
Retirement benefit obligation	996	23	(208)	10	821
Reserves	469	134	-	8	611
Less valuation allowance	(2,285)	(189)	208	(96)	(2,362)
	-	-	-	-	-
Tax benefit of loss carryforwards	4,993	(329)	-	323	4,987
Less valuation allowance	(4,993)	329	-	(323)	(4,987)
	\$ -	\$ -	\$ -	\$ -	\$ -

Deferred tax liabilities	April 30, 2016 balance	Recognized in profit or loss	Recognized in OCI	Exchange differences and other	April 30, 2017 balance
Property, plant and equipment	\$ 935	\$ (113)	\$ -	\$ (5)	\$ 817
Retirement benefit obligation	(708)	(48)	74	-	(682)
Derivative (liabilities) assets	180	(742)	-	-	(562)
Reserves	12	14	-	22	48
Loss carryforwards	(2,689)	598	-	-	(2,091)
Less valuation allowance	2,774	291	(74)	-	2,991
	\$ 504	\$ -	\$ -	\$ 17	\$ 521

### 15.3 Loss carry forwards

As at April 30, 2018, the Company has unused non-capital loss of \$25,585 (2017—\$20,486), consisting of Canadian non-capital loss of \$10,894 and US non-capital loss of \$14,691—U.S. \$11,445 (2017—Canadian \$8,134 U.S. non-capital loss of \$12,352 – U.S. \$9,041) which may be carried forward and used to reduce future years' taxable income. The future income tax benefit of these losses of \$6,603 net of valuation allowance of \$5,722 (April 30, 2017—\$7,078 net of valuation allowance of \$6,383) 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 non-capital losses expire as follows:

Expiry date	Loss Carryforwards
2032	\$ 3,956
2033	2,195
2034	4,163
2035	5,453
2036	3,946
2037	-
2038	5,872
<b>Total</b>	<b>\$ 25,585</b>

## 16. Other Long-term Obligations

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

Years Ended April 30	2018	2017
Deferred share units	\$ 101	\$ 572
Stock options	80	637
Restricted share units	86	246
	\$ 267	\$ 1,455

## 17. Issued Capital

### Authorized

7,670,881 Class A multiple voting shares, 10 votes per share

Unlimited Class B subordinating voting shares, 1 vote per share

Issued and outstanding	April 30, 2018	April 30, 2017
Class A multiple voting	5,345,881	5,345,881
Class B subordinated voting	9,034,820	9,034,820
	14,380,701	14,380,701

On July 11, 2018 one of the Company's shareholders, Bhayana Management Ltd., converted 2,000,000 Class A Multiple Voting Shares into Class B Subordinated Voting Shares on a one for one basis. Post conversion there are 3,345,881 Class A Multiple Voting Shares and 11,034,820 Class B Subordinated Voting Shares of Inscape Corporation issued and outstanding.



## 18. Share-based Compensation

### 18.1 Stock option plan

The Company has allotted and reserved 1,500,000 Class B subordinated voting shares under its Stock Option Plan. In September 2017 at the Annual General Meeting of the Shareholders, an amendment to the Stock Option Plan was approved to allow any stock option which is exercised or for any reason is cancelled or terminated without having been exercised be available for grants under the Plan. At the end of the year, the reserves available for grant are 760,372 (2017– 528,419).

Under the plan, options may be granted to purchase Class B subordinated voting shares at the market price determined at the time of grant. The plan also allows for the issuance of stock options with tandem share appreciation rights which give the holder the right to elect to either receive cash in an amount equal to the excess of the quoted market price over the option price or to receive a Class B subordinated voting share by making a cash payment equal to the option.

During the year, stock options with share appreciation rights for 384,081 Class B subordinated voting shares to expire in 5 years were granted (2017–264,027).

739,628 stock options were outstanding as at April 30, 2018 (2017–612,443). Fair values of these stock options based on the Black-Scholes-Merton Option Pricing Model are accounted for as liabilities and amortized over the vesting periods. Fair values of the amortized liabilities as at April 30, 2018 totaled \$80 (2017–\$637). Fair values of the stock options were estimated using the Black-Scholes-Merton option pricing model. The assumptions used to compute the fair values and compensation expense under the model are as follows:

Inputs to the Black-Scholes-Merton Model	2018 Values	2017 Values	Basis
Expected remaining life of the options	0.3 to 4.9 years	0.7 to 4.6 years	Expiry dates of the options, history of forfeiture rates and early exercise
Risk-free interest rates	1.7% to 2.8%	1.0% to 1.8%	Market yield on U.S. Treasury securities at terms commensurate with the expected remaining life of the options
Expected volatility	43% to 95%	37% to 43%	The Company's daily share price over a period of time commensurate with the expected remaining life of the options
Expected dividend yield	0%	0%	The Company's current dividend yield

### 18.2 Movements in share options during the year

The following reconciles the share options outstanding at the beginning and the end of the year:

	April 30, 2018		April 30, 2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	612,443	\$ 3.00	971,468	\$ 2.27
Granted	384,081	\$ 3.11	264,027	\$ 3.70
Exercised	(120,307)	\$ 2.22	(491,095)	\$ 2.10
Forfeited	(136,589)	\$ 2.67	(131,957)	\$ 2.33
Outstanding, end of year	739,628	\$ 3.25	612,443	\$ 3.00

### 18.3 Share options outstanding at the end of the year

The following summarizes the share options outstanding at the end of the year:

April 30, 2018		Options Outstanding		Options Exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining life in years	Weighted average exercise price	Number exercisable at year end	Weighted average exercise price
\$2.08 to \$2.55	161,052	3.76	\$ 2.18	50,000	\$ 2.38
\$2.98 to \$3.41	320,855	2.66	\$ 3.24	20,000	\$ 3.25
\$3.65 to \$4.02	257,721	2.50	\$ 3.91	115,000	\$ 4.02
\$2.08 to \$4.02	739,628	2.84	\$ 3.25	185,000	\$ 3.49

April 30, 2017		Options Outstanding		Options Exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining life in years	Weighted average exercise price	Number exercisable at year end	Weighted average exercise price
\$1.80 to \$2.25	162,519	1.85	\$ 2.11	30,000	\$ 2.08
\$2.55 to \$3.02	189,097	3.35	\$ 2.74	15,000	\$ 2.77
\$3.14 to \$4.02	260,827	2.86	\$ 3.75	15,000	\$ 4.02
\$1.80 to \$4.02	612,443	2.75	\$ 3.00	60,000	\$ 2.74

### 18.4 Employee stock purchase plan

The Company offers an Employee Stock Purchase Plan pursuant to which employees who have one year's service can choose to have up to 10% of their annual base salaries withheld to purchase Class B subordinated voting shares of the Company. The Company contributes 20% of employees' contributions to the plan. Both parties' contributions are held by the plan's trustees, who can purchase the Class B subordinated voting shares in the open market, from treasury or other plan participants' accounts. The purchase price of the shares from treasury is equal to the weighted average trading price of the Company's Class B subordinated voting shares on the TMX on the five trading days immediately prior to the subscription.

### 18.5 Deferred share unit plan

The Company has a Deferred Share Unit Plan for the members of the Board of Directors and the executives. Under the plan, each director receiving Director's fees may elect to receive all or a percentage of the fees in the form of notional Class B subordinated voting shares of the Company called deferred share units ("DSU"). The issue price of each DSU is equal to the weighted average share price at which Class B subordinated voting shares of the Company were traded on the TMX during the last five-day period of the quarter prior to the DSU issue. Upon retirement from the Board, a director's DSU is redeemed for cash based on the market price of the shares at the time of redemption.

As at April 30, 2018, 55,405 DSUs were outstanding with a total fair value of \$101 measured at the closing price of the shares on period end date (2017– 150,552 units, fair value \$572).

## 18.6 Movements in deferred share units during the year

The following reconciles the deferred share units at the beginning and the end of the year:

	April 30, 2018	April 30, 2017
Outstanding, beginning of year	150,552	143,288
Granted	4,853	7,264
Forfeited	(100,000)	-
Outstanding, end of year	55,405	150,552

## 18.7 Executives long-term incentive plan

The Company has a long-term incentive plan for eligible executives. Under the plan, annual grants of stock options and restricted share units ("RSU") are issued to eligible executives based on each executive's responsibilities and base salaries. The value of RSU's redeemable at the end of a three-year vesting period is dependent upon the market price of the Class B subordinated voting shares of the Company. During the year the Company issued 65,652 RSUs (2017 – 36,989). As at April 30, 2018, 116,447 RSUs were outstanding (2017–102,580).

## 18.8 Movements in restricted share units during the year

The following summarizes the movements in RSU during the year:

	April 30, 2018	April 30, 2017
Outstanding, beginning of year	102,580	73,894
Granted	65,652	36,989
Maturities	(38,226)	-
Forfeited	(13,559)	(8,303)
Outstanding, end of year	116,447	102,580

## 19. Loss Per Share

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

	April 30, 2018	April 30, 2017
Net Loss	\$ (2,992)	\$ (172)
Weighted average number of shares outstanding basic	14,380,701	14,380,701
Dilution impact of stock options	48,683	155,681
Weighted average number of shares outstanding diluted	14,429,384	14,536,382
Basic and diluted loss per share	\$ (0.21)	\$ (0.01)

Stock options are anti-dilutive and are, therefore, not included in the computation of basic and diluted loss per share for years ended April 30, 2018 and April 30, 2017.

## 20. Segmented Reporting

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

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

Years Ended April 30	2018	2017
<b>Segmented Sales</b>		
Furniture	\$ 69,684	\$ 69,674
Walls	24,252	25,621
	\$ 93,936	\$ 95,295
<b>Segmented (Loss) Income</b>		
Furniture	\$ (4,465)	\$ 2,509
Walls	(1,212)	(292)
	(5,677)	2,217
Unrealized loss (gain) on foreign exchange	363	(405)
Unrealized (gain) loss on derivatives	(2,566)	2,923
Investment income	(65)	(129)
Loss before taxes	(3,409)	(172)
Income taxes (recovery)	(417)	-
<b>Net loss</b>	<b>\$ (2,992)</b>	<b>\$ (172)</b>
<b>Amortization and Depreciation</b>		
Furniture	\$ 2,240	\$ 2,444
Walls	292	266
	\$ 2,532	\$ 2,710
<b>Capital Expenditures</b>		
	April 30, 2018	April 30, 2017
Furniture	\$ 1,313	\$ 1,674
Walls	39	76
	\$ 1,352	\$ 1,750

<b>Segment assets and liabilities</b>	<b>April 30, 2018</b>	<b>April 30, 2017</b>
Assets		
Furniture	\$ 31,831	\$ 33,805
Walls	12,751	13,065
<b>Total assets</b>	<b>\$ 44,582</b>	<b>\$ 46,870</b>
Liabilities		
Furniture	\$ 13,306	\$ 14,605
Walls	4,949	4,461
<b>Total liabilities</b>	<b>\$ 18,255</b>	<b>\$ 19,066</b>

Inscape's revenue is based on geographical location as detailed below:

<b>Years Ended April 30</b>	<b>2018</b>	<b>2017</b>
<b>Sales from</b>		
United States	\$ 88,527	\$ 90,458
Canada	5,409	4,678
Other	-	159
	<b>\$ 93,936</b>	<b>\$ 95,295</b>

Inscape's identifiable non-current assets (i.e. property, plant and equipment and intangibles) by geographical location are detailed below:

	<b>April 30, 2018</b>	<b>April 30, 2017</b>
United States	\$ 3,966	\$ 4,541
Canada	11,382	12,383
	<b>\$ 15,348</b>	<b>\$ 16,924</b>

## 21. Supplemental Information

### 21.1 Salaries, wages and benefits

Years Ended April 30	2018	2017
<b>Included in:</b>		
Cost of goods sold	\$ 16,010	\$ 16,209
Selling, general and administrative	13,870	14,236
	<b>\$ 29,880</b>	<b>\$ 30,445</b>

### 21.2 Amortization and depreciation

Years Ended April 30	2018	2017
<b>Included in:</b>		
Cost of goods sold	\$ 1,170	\$ 1,565
Selling, general and administrative	1,362	1,145
	<b>\$ 2,532</b>	<b>\$ 2,710</b>

## 22. Operating Lease Arrangements

Operating leases relate to leases of real properties with lease terms of between 1 and 10 years. The Company does not have an option to purchase the leased properties at the expiry of the lease periods. Operating lease expense of \$1,118 was charged to the consolidated statements of operations during the year (2017 - \$1,472).

	April 30, 2018	April 30, 2017
<b>Lease term:</b>		
Not later than 1 year	\$ 1,252	\$ 1,447
Later than 1 year and not later than 5 years	3,670	4,214
Later than 5 years	1,140	42
	<b>\$ 6,062</b>	<b>\$ 5,703</b>

## 23. Credit Facility

The Company has a demand operating credit of \$10,000 and a demand credit for foreign exchange contracts of U.S. \$10,000 with its bank. The interest rate on the demand operating credit facility is Prime Rate plus 0.25% for Canadian dollar loans, U.S. Base Rate plus 0.25% for U.S. dollar loans and 1.5% for Canadian dollar Banker's Acceptance. The agreement is secured by the Company's personal property.

The credit facility agreement has the following covenants:

1. The ratio of "total liabilities less postponed debt" to "shareholders' equity less intangible assets" does not exceed 1.4 to 1.0 at any time, measured quarterly.
2. Current ratio, excluding any derivative assets and liabilities, not to be less than 1.50 to 1.0, measured quarterly.

The Company is in compliance with these covenants as at April 30, 2018 (2017—in compliance).

As at April 30, 2018, the Company has not drawn on the demand operating credit and the demand credit for foreign exchange contracts (2017—not drawn).



## 24. Related Party Transactions

The following was the remuneration of directors and other members of key management personnel, including Chief Executive Officer, Chief Financial Officer, Senior VP Sales, VP Marketing, VP Operations, VP Product Development and VP Human Resources. Compensation of the Chief Executive Officer and two directors are paid through companies they control.

	April 30, 2018	April 30, 2017
Salaries and short-term benefits	\$ 2,370	\$ 2,013
Post-employment benefits	32	16
Share-based compensation	(510)	1,377
	\$ 1,892	\$ 3,406

During the year, the Company incurred expenses of \$42 (2017–\$166) to a former related party for goods and services. The negative position of the share-based compensation has resulted from the decline in share price.

## 25. 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, 2018 (2017–none).

## 26. Comparative Financial Statements

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



# Corporate Information

## Board of Directors

Tania Bortolotto, Director  
Bartley Bull, Chair of the Board  
Frank Delfino, Director  
Eric Ehgoetz, Director  
Dezso J. Horvath, Director  
Brian A. Mirsky, Director

## Chief Executive Officer

Brian A. Mirsky

## Listing of Capital Stock

Toronto Stock Exchange (INQ)

## Transfer Agent and Registrar

AST Trust Company (Canada)  
PO Box 700, Postal Station B  
Montreal, QC H3B 3K3  
T: 416 682 3860 or 800 387 0825  
F: 888 486 7660  
[astfinancial.com/ca-en](http://astfinancial.com/ca-en)

## Auditor

Deloitte LLP  
Toronto, Ontario

## Corporate Office

67 Toll Road  
Holland Landing, ON L9N 1H2  
T 905 836 7676  
[inscapesolutions.com](http://inscapesolutions.com)

## Financial Calendar

May 1 to April 30

## 2018 Annual Meeting

The annual meeting of shareholders will be held on September 12, 2018 at 4:00 pm at Inscape's Corporate Office, 67 Toll Road, Holland Landing, ON, L9N 1H2

## Investor Information

Shareholders seeking assistance or information about the Company are invited to contact Aziz Hirji, Chief Financial Officer, at:

67 Toll Road  
Holland Landing, ON L9N 1H2  
T: 905 836 7676

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