

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

September 30, 2016

Notice

The Corporation's independent auditors have not reviewed these interim condensed consolidated financial statements in accordance with standards established by CPA Canada for a review of interim condensed consolidated financial statements by an entity's auditor.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As at
[in thousands of Canadian dollars]

	Notes	September 30, 2016 \$	March 31, 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents		11,012	16,454
Accounts receivable		4,274	6,159
Derivative financial instruments		3	25
Inventories	3	7,463	5,016
Prepaid expenses and deposits		795	478
		23,547	28,132
Non-current assets			
Property and equipment		8,246	6,940
Intangible assets		2,646	2,110
Other assets		16	18
		34,455	37,200
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		5,075	6,114
Warranty provision		39	14
Deferred revenues		183	549
		5,297	6,677
Non-current liabilities			
Share-based compensation liability	4	30	—
Long-term debt	5	4,483	4,420
		4,513	4,420
Equity			
Share capital	6.1	62,307	62,254
Share-based payments reserve		5,274	5,234
Warrants reserve		959	959
Foreign currency translation reserve		(417)	(406)
Deficit		(43,478)	(41,938)
		24,645	26,103
		34,455	37,200

See accompanying notes.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS
AND OTHER COMPREHENSIVE LOSS

Quarters and six-month periods ended September 30
[in thousands of Canadian dollars, except share and per-share amounts]

	Notes	Second Quarter		Six Months	
		2016 \$	2015 \$	2016 \$	2015 \$
Revenues					
Motion systems for:					
Entertainment market:					
Commercial theatres:					
System sales		2,508	2,208	5,724	4,772
Rights for use, rental and maintenance		1,384	1,193	3,024	3,469
		3,892	3,401	8,748	8,241
Home entertainment system sales		285	233	695	565
Themed entertainment system sales		1,320	663	2,440	1,390
		5,497	4,297	11,883	10,196
Simulation and Training market		834	724	2,110	2,013
		6,331	5,021	13,993	12,209
Cost of goods sold excluding amortization	7.1	3,067	2,204	6,215	4,922
Amortization related to cost of goods sold		453	435	966	1,060
Cost of goods sold		3,520	2,639	7,181	5,982
Gross profit		2,811	2,382	6,812	6,227
Other expenses					
Selling and marketing	7.2	1,929	1,428	4,171	3,095
Administration	7.3	1,360	1,035	2,685	2,026
Research and development	7.4	520	517	1,288	1,492
Foreign exchange loss (gain)		4	(493)	(10)	(334)
		3,813	2,487	8,134	6,279
Loss before financial expenses (income) and income taxes		(1,002)	(105)	(1,322)	(52)
Financial expenses (income)					
Financial expenses		149	116	299	137
Interest income		(37)	(13)	(81)	(22)
		112	103	218	115
Loss before income taxes		(1,114)	(208)	(1,540)	(167)
Income taxes		—	—	—	11
Net loss		(1,114)	(208)	(1,540)	(178)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation loss		(13)	(124)	(11)	(103)
Comprehensive loss		(1,127)	(332)	(1,551)	(281)
Basic and diluted net loss per share		(0.007)	(0.001)	(0.009)	(0.001)
Weighted average number of common shares outstanding		175,021,515	163,791,129	174,999,234	163,788,184

See accompanying notes.

D-BOX Technologies Inc.**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Six-month periods ended September 30, 2016 and 2015

[in thousands of Canadian dollars]

	Notes	Share capital \$	Share- based payments reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total \$
Balance as at March 31, 2016		62,254	5,234	959	(406)	(41,938)	26,103
Net loss		—	—	—	—	(1,540)	(1,540)
Foreign currency translation loss		—	—	—	(11)	—	(11)
Comprehensive loss		—	—	—	(11)	(1,540)	(1,551)
Issue of share capital	6.1	53	(22)	—	—	—	31
Share-based payments	6.2	—	62	—	—	—	62
Balance as at September 30, 2016		62,307	5,274	959	(417)	(43,478)	24,645
Balance as at March 31, 2015		57,715	5,014	—	(385)	(41,751)	20,593
Net loss		—	—	—	—	(178)	(178)
Foreign currency translation loss		—	—	—	(103)	—	(103)
Comprehensive loss		—	—	—	(103)	(178)	(281)
Issue of share capital	6.1	11	(4)	—	—	—	7
Share-based payments	6.2	—	119	—	—	—	119
Issue of warrants		—	—	527	—	—	527
Balance as at September 30, 2015		57,726	5,129	527	(488)	(41,929)	20,965

See accompanying notes.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Six-month periods ended September 30
[in thousands of Canadian dollars]

	Notes	2016 \$	2015 \$
OPERATING ACTIVITIES			
Net loss		(1,540)	(178)
Items not affecting cash			
Amortization of property and equipment		1,112	1,067
Amortization of intangible assets		300	267
Amortization of other assets		2	82
Write-off of property and equipment		—	134
Share-based payments	6.2	62	119
Unrealized foreign exchange gain		(148)	(657)
Share-based compensation liability		30	—
Accretion of interest expense		63	19
Cash flows from operations before changes in working capital items		(119)	853
Changes in working capital items:			
Accounts receivable		2,065	2,354
Inventories		(2,447)	(629)
Prepaid expenses and deposits		(317)	(377)
Goods held for lease		(2,004)	(644)
Accounts payable and accrued liabilities		(1,131)	(675)
Derivative financial instruments		22	28
Warranty provision		25	—
Deferred revenues		(366)	33
		(4,153)	90
Cash flows relating to operating activities		(4,272)	943
INVESTING ACTIVITIES			
Additions to property and equipment		(383)	(626)
Additions to intangible assets		(836)	(454)
Cash flows relating to investing activities		(1,219)	(1,080)
FINANCING ACTIVITIES			
Proceeds from long-term debt, net of financing fees		—	4,869
Shares issued on exercise of option	6.1	31	7
Cash flows relating to financing activities		31	4,876
Effect of exchange rate fluctuations on cash and cash equivalents		18	86
Net change in cash and cash equivalents		(5,442)	4,825
Cash and cash equivalents, beginning of period		16,454	6,710
Cash and cash equivalents, end of period		11,012	11,535
Cash and cash equivalents consist of:			
Cash		3,322	3,663
Cash equivalents		7,690	7,872
Interest included in operating activities:			
Interest paid		176	54

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 2016

[Amounts are in thousands of Canadian dollars, except share, option, warrant, share unit, per-share and per-option amounts]

1. DESCRIPTION OF BUSINESS

D-BOX Technologies Inc. [“D-BOX” or the “Corporation”], incorporated under the *Canada Business Corporations Act*, is domiciled at 2172 de la Province Street, Longueuil, Québec, Canada.

D-BOX designs, manufactures and commercializes cutting-edge motion systems intended for the entertainment and the simulation and training markets. This unique and patented technology uses motion effects specifically programmed for each visual content which are sent to a motion system integrated into either a platform, a seat or any other product. The resulting motion is perfectly synchronized with the on-screen action, thus creating an unparalleled realistic immersive experience.

Based on the nature of the Corporation’s clients, two significant markets have been identified: the entertainment and the simulation and training markets. The entertainment market comprises motion systems installed in commercial theatres and home entertainment consumer products, particularly video games and home theatres, and themed entertainment. The simulation and training market consists of products for industrial simulators, industrial training and other applications.

The unaudited interim condensed consolidated financial statements were approved by the Corporation’s Board of Directors on November 10, 2016.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards 34 [“IAS 34”], *Interim Financial Reporting*, and accordingly, they are interim condensed consolidated financial statements because they do not include all disclosures required under International Financial Reporting Standards [“IFRS”] for annual consolidated financial statements. Thus, these interim condensed consolidated financial statements should be read in conjunction with the March 31, 2016 annual consolidated financial statements which include the same accounting policies used in the preparation of these financial statements.

Certain prior period comparative figures have been reclassified to conform to current period presentation.

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3. INVENTORIES

	September 30, 2016	March 31, 2016
	\$	\$
Parts and components	4,954	3,645
Finished goods	2,509	1,371
	7,463	5,016

4. SHARE-BASED COMPENSATION LIABILITY

In June 2016, a restricted share unit plan [“RSU”] and a deferred share unit plan [“DSU”] were adopted by the Board of Directors. The liability resulting from these share unit plans will be measured at fair value at the grant date and measured again at the end of each reporting period and at settlement date. Any change in fair value will be recognized in the consolidated statements of net loss and other comprehensive loss. As at September 30, 2016, the total liability resulting from the 550,000 RSU share units and the 560,000 DSU share units granted during the period amounted to \$328, whereas \$298 was accounted for in accounts payable and accrued liabilities and \$30 was accounted for in liabilities as share-based compensation liability.

The 550,000 RSU share units will vest in three years and will be redeemed for cash or shares at vesting date. A number of 420,000 DSU share units vested during the quarter and a number of 120,000 DSU share units will vest during the next twelve months. These share units will be redeemed for cash or shares upon cessation of participant service for all vested units.

5. LONG-TERM DEBT

	September 30, 2016	March 31, 2016
	\$	\$
Balance	4,483	4,420

On September 30, 2016, the effective interest rate of long-term debt was 10.7% and the Corporation was in compliance with all debt covenants.

During the quarter and the six-month period ended September 30, 2016, the interest expense on long-term debt charged to income amounted to respectively \$119 and \$237, including an amount of \$32 and \$63 related to the accretion of interest [\$73 and \$19 for the quarter and six-month period ended September 30, 2015].

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6. EQUITY

6.1 *Share Capital*

Class A common shares of the Corporation for the six-month periods ended September 30, 2016 and 2015 are summarized in the following table:

	2016		2015	
	#	\$	#	\$
Balance as at March 31	174,928,906	62,254	163,784,462	57,715
Shares issued on exercise of options	105,000	53	33,333	11
Balance as at September 30	175,033,906	62,307	163,817,795	57,726

During the period, the Corporation issued 105,000 Class A common shares [33,333 in 2015] for a total cash consideration of \$31 [\$7 in 2015] on exercise of stock options. An amount of \$22 [\$4 in 2015], representing the initial fair value of the stock options, was credited to share capital and deducted from the share-based payments reserve.

6.2 *Stock Option Plan*

Changes in the Corporation's stock options for the six-month periods ended September 30, 2016 and 2015 are summarized in the following table:

	2016		2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance as at March 31	15,126,845	0.37	14,879,345	0.37
Options granted	300,000	0.62	390,000	0.34
Options exercised	(105,000)	0.30	(33,333)	0.21
Options cancelled	(200,000)	0.61	(66,667)	0.21
Balance as at September 30	15,121,845	0.37	15,169,345	0.37
Options exercisable at end of period	13,637,667	0.38	11,667,657	0.41

The fair value for options granted during the six-month period ended September 30, 2016 and 2015 was estimated at the grant date using the Black-Scholes option pricing model based on the following

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assumptions: 0.83% weighted average risk-free interest rate [1.02% in 2015]; no dividend issued in 2016 and 2015; 74% weighted average volatility factor of the expected market price for the Corporation's shares [80% in 2015]; 3.6% weighted average cancellation rate [3.6% in 2015]; \$0.63 weighted average share price [\$0.33 in 2015] and an expected weighted average option life of 6.4 years [6.1 years in 2015]. The expected life of stock options is based on historical data and is not necessarily indicative of exercise patterns that might occur. The expected volatility reflects the assumption that historical volatility over a term similar to the option term is indicative of future trends, which might not be the case.

The weighted average of the estimated fair values at the grant date of the options awarded during the period is \$0.42 per option [\$0.23 per option in 2015], amortized through income over the vesting periods of the options.

For the quarter and the six-month period ended September 30, 2016, the share-based compensation expense charged to income amounted to \$21 and \$62 [\$62 and \$119 for the quarter and the six-month period ended September 30, 2015] with a corresponding amount recognized under share-based payment reserve.

7. SUPPLEMENTARY INFORMATION ON THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND OTHER COMPREHENSIVE LOSS

7.1 *Cost of Goods Sold Excluding Amortization*

The key components of costs of goods sold excluding amortization of property and equipment are detailed as follows for the quarters and six-month periods ended September 30:

	Second Quarter		Six Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cost of parts and components	2,578	1,849	5,346	4,189
Employee costs	180	202	336	381
Outsourcing fees	108	42	183	106
Freight charges and import duties	64	39	124	107
Production supplies	41	26	65	56
Impairment of parts and components	17	15	48	19
Share-based payments	—	1	—	3
Other	79	30	113	61
	3,067	2,204	6,215	4,922

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7.2 Selling and Marketing

The key components of selling and marketing expenses are detailed as follows for the quarters and six-month periods ended September 30:

	Second Quarter		Six Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	898	881	2,233	1,908
Professional fees	251	201	513	383
Advertising and promotional material	184	71	281	111
Travel and entertainment expenses	158	42	290	102
Trade show expenses	120	37	305	182
Freight charges and import duties	75	12	52	30
Amortization of property and equipment	49	45	93	91
Office rental	31	40	62	74
Write-off of property and equipment	—	11	—	29
Share-based payments	—	12	14	21
Other	163	76	328	164
	1,929	1,428	4,171	3,095

7.3 Administration

The key components of administration expenses are detailed as follows for the quarters and six-month periods ended September 30:

	Second Quarter		Six Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	513	525	1,273	1,087
Directors' compensation	350	53	398	85
Professional fees	144	103	345	169
Amortization of property and equipment and intangible assets	137	96	265	169
Insurance	56	39	109	79
Non-recoverable taxes	53	65	67	90
Costs related to publicly traded company	52	70	106	123
Share-based payments	21	47	48	90
Other	34	37	74	134
	1,360	1,035	2,685	2,026

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7.4 Research and Development

The key components of research and development expenses are detailed as follows for the quarters and six-month periods ended September 30:

	Second Quarter		Six Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	321	349	782	794
Professional fees	55	14	99	59
Amortization of property and equipment and intangible assets	44	48	90	96
Materials and certification	26	29	181	57
Investment tax credits reversal (tax credits)	(1)	39	(12)	389
Share-based payments	—	2	—	5
Other	75	36	148	92
	520	517	1,288	1,492