

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

December 31, 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	December 31, 2016 \$	March 31, 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents		10,084	16,454
Accounts receivable		4,173	6,159
Derivative financial instruments		—	25
Inventories	3	9,115	5,016
Prepaid expenses and deposits		826	478
		24,198	28,132
Non-current assets			
Property and equipment		8,442	6,940
Intangible assets		2,921	2,110
Other assets		9	18
		35,570	37,200
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		5,131	6,114
Derivative financial instruments		133	—
Warranty provision		54	14
Deferred revenues		2,521	549
		7,839	6,677
Non-current liabilities			
Share-based compensation liability	4	46	—
Long-term debt	5	4,516	4,420
		4,562	4,420
Equity			
Share capital	6.1	62,603	62,254
Share-based payments reserve		5,180	5,234
Warrants reserve		959	959
Foreign currency translation reserve		(457)	(406)
Deficit		(45,116)	(41,938)
		23,169	26,103
		35,570	37,200

See accompanying notes.

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

Quarters and nine-month periods ended December 31
[in thousands of Canadian dollars, except share and per-share amounts]

	Notes	Third Quarter		Nine Months	
		2016 \$	2015 \$	2016 \$	2015 \$
Revenues					
Motion systems for:					
Entertainment market:					
Commercial theatres:					
System sales		1,254	3,586	6,978	8,358
Rights for use, rental and maintenance		2,076	1,628	5,100	5,097
		3,330	5,214	12,078	13,455
Home entertainment system sales		536	472	1,231	1,037
Themed entertainment system sales		1,356	1,467	3,796	2,857
		5,222	7,153	17,105	17,349
Simulation and Training market		1,581	1,068	3,691	3,081
		6,803	8,221	20,796	20,430
Cost of goods sold excluding amortization	7.1	2,588	3,247	8,803	8,169
Amortization related to cost of goods sold		669	680	1,635	1,740
Cost of goods sold		3,257	3,927	10,438	9,909
Gross profit		3,546	4,294	10,358	10,521
Other expenses					
Selling and marketing	7.2	3,003	2,180	7,174	5,275
Administration	7.3	1,251	1,085	3,936	3,111
Research and development	7.4	825	633	2,113	2,125
Foreign exchange gain		(18)	(118)	(28)	(452)
		5,061	3,780	13,195	10,059
Income (loss) before financial expenses					
(income) and income taxes		(1,515)	514	(2,837)	462
Financial expenses (income)					
Financial expenses		149	145	448	282
Interest income		(26)	(16)	(107)	(38)
		123	129	341	244
Income (loss) before income taxes		(1,638)	385	(3,178)	218
Income taxes (recovery)		–	(12)	–	(1)
Net income (loss)		(1,638)	397	(3,178)	219
<i>Items that will be reclassified to net income</i>					
<i>(loss) in subsequent periods:</i>					
Foreign currency translation loss		(40)	(98)	(51)	(201)
Comprehensive income (loss)		(1,678)	299	(3,229)	18
Basic and diluted net income (loss) per share		(0.009)	0.002	(0.018)	0.001
Weighted average number of common shares					
outstanding		175,150,279	165,508,616	175,049,765	164,364,058
Diluted weighted average number of					
common shares		175,150,279	173,551,150	175,049,765	172,406,592

See accompanying notes.

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

Nine-month periods ended December 31, 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		—	—	—	—	(3,178)	(3,178)
Foreign currency translation loss		—	—	—	(51)	—	(51)
Comprehensive loss		—	—	—	(51)	(3,178)	(3,229)
Issue of share capital	6.1	349	(148)	—	—	—	201
Share-based payments	6.2	—	94	—	—	—	94
Balance as at December 31, 2016		62,603	5,180	959	(457)	(45,116)	23,169
Balance as at March 31, 2015		57,715	5,014	—	(385)	(41,751)	20,593
Net income		—	—	—	—	219	219
Foreign currency translation loss		—	—	—	(201)	—	(201)
Comprehensive income (loss)		—	—	—	(201)	219	18
Issue of share capital and warrants	6.1	4,576	(4)	962	—	—	5,534
Share issue costs	6.1	(37)	—	(3)	—	—	(40)
Share-based payments	6.2	—	178	—	—	—	178
Balance as at December 31, 2015		62,254	5,188	959	(586)	(41,532)	26,283

See accompanying notes.

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

Nine-month periods ended December 31
[in thousands of Canadian dollars]

	Notes	2016 \$	2015 \$
OPERATING ACTIVITIES			
Net income (loss)		(3,178)	219
Items not affecting cash			
Amortization of property and equipment		1,855	1,805
Amortization of intangible assets		446	399
Amortization of other assets		9	104
Write-off of property and equipment		10	158
Share-based payments	6.2	94	178
Unrealized foreign exchange gain		(422)	(982)
Share-based compensation liability	4	56	—
Accretion of interest expense		96	48
Cash flows from operations before changes in working capital items		(1,034)	1,929
Changes in working capital items:			
Accounts receivable		2,522	987
Inventories		(4,094)	(955)
Prepaid expenses and deposits		(347)	84
Goods held for lease		(2,733)	(1,008)
Accounts payable and accrued liabilities		(1,293)	(409)
Derivative financial instruments		158	134
Warranty provision		40	
Deferred revenues		1,972	51
		(3,775)	(1,116)
Cash flows relating to operating activities		(4,809)	813
INVESTING ACTIVITIES			
Additions to property and equipment		(540)	(808)
Additions to intangible assets		(1,257)	(706)
Cash flows relating to investing activities		(1,797)	(1,514)
FINANCING ACTIVITIES			
Redeemed share-based compensation	4	(10)	
Proceeds from long-term debt, net of financing fees	5		4,869
Issue of share capital	6.1		5,000
Share issue costs	6.1		(40)
Shares issued on exercise of option	6.1	201	7
Cash flows relating to financing activities		191	9,836
Effect of exchange rate fluctuations on cash and cash equivalents		45	116
Net change in cash and cash equivalents		(6,370)	9,251
Cash and cash equivalents, beginning of period		16,454	6,710
Cash and cash equivalents, end of period		10,084	15,961
Cash and cash equivalents consist of:			
Cash		2,869	2,624
Cash equivalents		7,215	13,337
Interest and income taxes included in operating activities:			
Interest paid		263	144
Income taxes paid		4	

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 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 February 9, 2017.

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.

3. INVENTORIES

	December 31, 2016 \$	March 31, 2016 \$
Parts and components	6,088	3,645
Finished goods	3,027	1,371
	9,115	5,016

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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 income (loss) and other comprehensive income (loss).

	2016	
	RSU Share Unit	DSU Share Unit
Balance as at March 31		
Issued	550,000	560,000
Redeemed for cash	(20,000)	
Balance as at December 31	530,000	560,000
Units exercisable at end of period		440,000

The RSU share units will vest three years after grant date and will be redeemed for cash or shares at vesting date or under certain conditions. The unvested DSU share units will vest 12 months after grant date. These DSU share units will be redeemed for cash or shares upon cessation of participant service for all vested units.

For the quarter and the nine-month period ended December 31, 2016, the share-based compensation expense charged to income amounted respectively to (\$31) (expense reversal) and \$297. An amount of \$251 was accounted for in accounts payable and accrued liabilities and \$46 was accounted for under share-based compensation liabilities.

5. LONG-TERM DEBT

	December 31, 2016 \$	March 31, 2016 \$
Balance	4,516	4,420

On December 31, 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 nine-month period ended December 31, 2016, the interest expense on long-term debt charged to income amounted to respectively \$120 and \$357, including an amount of \$33 and \$96 related to the accretion of interest [\$117 and \$190 including an amount of \$29 and \$48 related to the accretion of interest for the quarter and nine-month period ended December 31, 2015].

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6. EQUITY

6.1 Share Capital

Class A common shares of the Corporation for the nine-month periods ended December 31, 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			11,111,111	4,528
Shares issued on exercise of options	660,000	349	33,333	11
Balance as at December 31	175,588,906	62,603	174,928,906	62,254

Period ended December 31, 2016

During the period, the Corporation issued 660,000 Class A common shares [33,333 in 2015] for a total cash consideration of \$201 [\$7 in 2015] on exercise of stock options. An amount of \$148 [\$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.

Period ended December 31, 2015

On December 18, 2015, the Corporation issued 11,111,111 Class A common shares and 8,333,333 warrants for gross proceeds of \$5,000. Each warrant entitles the holder to purchase one Class A common share at \$0.60 for an 18-month period ending June 18, 2017. The gross proceeds were allocated to the shares and warrants proportionately to their respective estimated fair values. As a result, \$435 was allocated to warrants and \$4,565 was added to share capital. The issue costs of \$40 were allocated to shares and warrants proportionately to their respective estimated fair values. Accordingly, \$37 was deducted from share capital and \$3 was deducted from warrants. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: 0.50% average risk-free interest rate; no dividend; 69.7% average volatility factor for the expected market price of the Corporation's shares; and an expected average warrant term of 18 months.

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6.2 Stock Option Plan

Changes in the Corporation's stock options for the nine-month periods ended December 31, 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	1,000,000	0.58	390,000	0.34
Options exercised	(660,000)	0.30	(33,333)	0.21
Options cancelled	(353,333)	0.55	(81,667)	0.26
Balance as at December 31	15,113,512	0.38	15,154,345	0.37
Options exercisable at end of period	13,931,846	0.38	12,501,833	0.40

The fair value for options granted during the nine-month periods ended December 31, 2016 and 2015 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 1.05% weighted average risk-free interest rate [1.02% in 2015]; no dividend issued in 2016 and 2015; 72.9% weighted average volatility factor of the expected market price for the Corporation's shares [79.9% in 2015]; 3.7% weighted average cancellation rate [3.6% in 2015]; \$0.58 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 \$0.38 per option [\$0.34 per option in 2015], amortized through income over the vesting periods of the options.

For the quarter and the nine-month period ended December 31, 2016, the share-based compensation expense charged to income amounted to \$32 and \$94 [\$55 and \$178 for the quarter and the nine-month period ended December 31, 2015] with a corresponding amount recognized under share-based payment reserve.

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7. SUPPLEMENTARY INFORMATION ON THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (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 nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cost of parts and components	2,164	2,793	7,510	6,982
Employee costs	168	219	504	600
Outsourcing fees	64	57	247	163
Freight charges and import duties	36	81	160	188
Parts and components write-offs	85	33	133	52
Production supplies	25	40	90	96
Maintenance of goods held for lease		9		41
Share-based payments		1		4
Other	46	14	159	43
	2,588	3,247	8,803	8,169

7.2 *Selling and Marketing*

The key components of selling and marketing expenses are detailed as follows for the quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	1,543	1,053	3,776	2,961
Professional fees	511	169	1,024	552
Advertising and promotional material	355	508	636	619
Trade show expenses	181	140	486	322
Travel and entertainment expenses	159	77	449	179
Amortization of property and equipment	50	56	143	147
Freight charges and import duties	44	(13)	96	17
Office rental	5	31	67	105
Share-based payments	19	11	33	32
Write-off of property and equipment	1	13	1	42
Other	135	135	463	299
	3,003	2,180	7,174	5,275

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7.3 Administration

The key components of administration expenses are detailed as follows for the quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	653	673	1,926	1,760
Professional fees	267	81	612	250
Amortization of property and equipment and intangible assets	141	113	406	282
Directors' compensation	(5)	40	393	125
Insurance	48	48	157	127
Costs related to publicly traded company	41	27	147	150
Non-recoverable taxes	34	34	101	123
Share-based payments	12	45	60	135
Other	60	24	134	159
	1,251	1,085	3,936	3,111

7.4 Research and Development

The key components of research and development expenses are detailed as follows for the quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee costs	555	432	1,337	1,226
Materials and certification	107	71	288	128
Professional fees	62	33	161	92
Amortization of property and equipment and intangible assets	36	43	126	139
Share-based payments	1	2	1	7
Investment tax credits reversal (tax credits)	(8)	(10)	(9)	379
Other	72	62	209	154
	825	633	2,113	2,125