# Management Discussion and Analysis

**D-BOX Technologies Inc.**

Third quarter ended December 31, 2016

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# MANAGEMENT DISCUSSION AND ANALYSIS
# D-BOX Technologies Inc.
## Third quarter ended December 31, 2016

## 1. SCOPE OF THE MD&A

This Management's Discussion and Analysis ("MD&A") is intended to provide the reader with a better understanding of the activities of D-BOX Technologies Inc. and its subsidiary, and key elements of its financial results. In particular, it explains changes in the Corporation's financial position and operating results for the quarter and nine-month period ended December 31, 2016 by comparing them to the results of the corresponding period of the previous fiscal year. It also presents a comparison of the balance sheets as at December 31, 2016 and March 31, 2016.

This MD&A has been prepared in accordance with *National Instrument 51-102*, *Continuous Disclosure Obligations,* and should be read in conjunction with the information included in the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2016 and the unaudited interim condensed consolidated financial statements of the quarter and nine-month period ended December 31, 2016. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended December 31, 2016 and this MD&A have been reviewed by the Audit Committee and approved by the Corporation's Board of Directors. Unless otherwise indicated, all the amounts in this MD&A are in thousands of Canadian dollars.

## 2. FORWARD-LOOKING STATEMENTS

Some of the statements made in this MD&A, including, but not limited to, statements about the opinions, the projects, the objectives, the strategies, the estimates, the intentions and the expectations of the Corporation, as well as other statements not referring to historical facts, are forward-looking statements. Forward-looking statements can be identified by terms such as "expects," "anticipates," "estimates," "predicts," "undertakes" and other similar terms and expressions. These statements are based on the information available at the time they were prepared and management's good faith assumptions and expectations regarding future events, and inherently involve known and unknown risks and uncertainties such as, without limitation, competition, the Corporation's ability to build on its technology, the Corporation's ability to continue developing its distribution network and enter into new commercial agreements in the entertainment and simulation and training markets, exchange rate fluctuations, and other factors discussed herein (see "Risks and Uncertainties") or in the Corporation's continuous disclosure filings. The Corporation's actual results may be materially different from those expressed or implied in these forward-looking statements. As a result, you are cautioned not to place undue reliance on these forward-looking statements. These statements do not reflect the potential impact of any special items or of any business combination or other transaction that may be announced or that may occur after the date hereof. Except as required by law, the Corporation does not intend, and undertakes no obligation, to update any forward-looking statements to reflect, in particular, new information or future events.

# 3. Quarterly Highlights

## 3.1 Financial Highlights

- Quarterly revenue declined from $8,221 k last year to $6,803 k this year primarily related to:
  - ✓ New technical import regulations in a Latin American country which has slowed delivery; and
  - ✓ A shift in market trends creating demand for a new value added premium product in certain geographical markets. We expect to see the benefit of the shift to this new premium product in the next few quarters.
- Quarterly gross profit amounted to $3,546 k compared with $4,294 k last year. Excluding amortization, gross margin increased from 61% last year to 62% this year.
- Quarterly net loss of $1,638 k compared to a net income of $397 k last year.
- Quarterly adjusted EBITDA* of $(595 k), including a restructuring charge of $359 k, compared to an adjusted EBITDA of $1,371 k last year.
- Cash and cash equivalents of $10,084 k as at December 31, 2016 compared to $16,454 k as at March 31, 2016.

| **Third quarter and nine-month period ended December 31** (in thousands of dollars, except per share amounts) | | | | |
|---|---|---|---|---|
| | **Third quarter** | | **Nine months** | |
| | **2016** | **2015** | **2016** | **2015** |
| Revenues | **6,803** | 8,221 | **20,796** | 20,430 |
| Net income (loss) | **(1,638)** | 397 | **(3,178)** | 219 |
| Adjusted EBITDA* | **(595)** | 1,371 | **(451)** | 2,654 |
| Basic and diluted net income (loss) per share | **(0.009)** | 0.002 | **(0.018)** | 0.001 |
| **Information from the consolidated balance sheet** | | | | |
| | **As at December 31, 2016** | | **As at March 31, 2016** | |
| Cash and cash equivalents | 10,084 | | 16,454 | |

* See the "Non IFRS Measures" section and the reconciliation table of adjusted EBITDA to the net loss on page 5.

## 3.2 Operational Highlights

- Continuous development of our entertainment business activities in Asia following the launch of a first entire auditorium equipped with our technology with Shanghai Bestar Cinemas Management Co. Ltd in China with 1) two more full-size auditoriums to be installed with the collaboration of the distributor Link China in Chengdu and Shanghai. Both theatres will be branded under the Bestar D-BOX Cinema moniker, 2) installation of a first complete D-BOX auditorium with AEON Cinema in Japan.
- Screens installed or in backlog increased by 16% from 528 a year ago to 615 as at December 31, 2016.
- D-BOX signed an exclusive distribution agreement with Hangzhou JC City Management Investment Group Limited, a wholly-owned subsidiary of Gold Finance Group, to distribute and promote D-BOX's high-end home entertainment motion system in China for revenues of up to US $22 million, including a US $3.1 million value to be delivered in the next 15 months. In order to maintain its exclusivity in China (excluding Taiwan, Macau and Hong Kong), it is required to purchase at least US $22 million of D-BOX motion systems over the next five years. Gold Finance has the right to terminate the Agreement upon 30 days' notice without any further liability or obligation on its part, except for orders already placed.
- Launch of Canada's largest racing motion simulator centre in Mirabel with ICAR, Canada's ultimate motorsports complex.

# 4. Outlook

D-BOX focuses on two major development areas: the entertainment market and the simulation and training market which have their respective sub-markets. In light of the business development activities in each of these two markets, D-BOX anticipates the long-term upward trend in revenue to continue. In combination with this expected growth of revenue, D-BOX intends to increase the level of its operating expenses aiming, amongst others, to accelerate China market penetration and to support the sales and marketing of technological innovations. This strategy will help solidify D-BOX's position in existing sub-markets and will facilitate entering new ones.

With the advent of the virtual reality (VR) world and with D-BOX expertise in immersive motion and true-to-life simulation, D-BOX has actively been developing new applications for VR and other key markets. De facto, D-BOX is well positioned to become a key player in the VR industry given that its technology can reduce motion dizziness sometimes associated with such experiences and may be the missing link that will solve one of the main challenges virtual reality needs to overcome. D-BOX is particularly excited to be part of the new trend as the size of the virtual and augmented reality markets may soon reach billions of dollars according to many industry sources.

# 5. Corporate Profile

D-BOX designs, manufactures and commercializes cutting-edge motion systems intended for the entertainment and 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.

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 3

Three components produce motion synchronized in perfect harmony with image and sound:

1. the creation of motion effects making up the motion code known as D-BOX Motion Code;
2. a motion controller serving as an interface between the optical disk reader or the video server that contains the film and the D BOX motion system; and
3. the D-BOX motion system, consisting amongst other things of electromechanical pistons (actuators) built into a platform, a seat, or another type of equipment.

As at December 31, 2016, D-BOX had 123 employees compared to 95 as at December 31, 2015. Additional resources were hired mainly in marketing and research & development departments.

## 6. Corporate Strategy

The Corporation is a leader with respect to the creation and design of non-distractive immersive motion systems. It is also in a unique position to be part of and to act as a truly differentiating factor for upcoming virtual reality technologies and experiences.

D-BOX continues to develop brand awareness in addition to offering a differentiated asset generating revenue in various business sectors. The Corporation's cutting-edge motion systems target two distinct markets: the entertainment market and the simulation and training market.

**Examples of Applications**

| Entertainment Market | Simulation and Training Market |
|---|---|
| • Commercial theatres<br>• Home Entertainment:<br>o Home theatre<br>o Video games<br>• Themed Entertainment:<br>o Amusement parks<br>o Arcades<br>o Museums and planetariums | • Simulation and training for:<br>o Automotive<br>o Flight<br>o Heavy equipment/cranes<br>o Racing<br>o Wellness |
| • Virtual reality for the Entertainment and Simulation and Training markets | |

### 6.1 Revenue Models

The Corporation's revenue streams consist mainly of:

1. the sale or lease of D-BOX motion systems including motion controllers and computer servers in the case of larger installations such as commercial theatres;
2. utilization rights (license) for the D-BOX technology on the sale of admission tickets in commercial theatres which are equipped with this technology to view a motion picture encoded by D-BOX. The Corporation also receives system maintenance revenue relating to the use of systems;
3. direct sales of motion systems to a network of specialized resellers, integrators, equipment or seating manufacturers who market the D-BOX technology under their own brands (Original Equipment Manufacturers or OEMs). This marketing method offers the advantage of minimizing sales and marketing costs; and
4. coding rights for visual content.

### 6.2 Growth Strategy / Entertainment Market

The Corporation is constantly pursuing opportunities with commercial theatre owners to increase the number of venues equipped with its technology.

Concurrently, the Corporation leverages its relationships and credibility established with Hollywood's major studios and some Asian and European studios in order to provide a wide array of content to its commercial theatres. The Corporation believes that an increase in the offer of motion pictures has a direct impact on the number of equipped venues and that box office revenue for D-BOX motion systems equipped theatres acts as an incentive to:

1. accelerate the deployment of its technology with new commercial theatre exhibitors that want to add a distinctive element to their offering;
2. facilitate the sale of its technology to current exhibitors that may want to equip more than one of their complexes or equip more than one screen within the same complex;
3. generate motion system sales to the high-end home entertainment clientele, who wants to experience D-BOX in the comfort of their homes;
4. encourage video game customers to purchase gaming seats equipped with D-BOX motion systems thereby allowing them to add a new level of immersion to their gaming experience; and
5. promote the technology to potential customers in the simulation and training market.

As of December 31, 2016, 38 exhibitors (37% of all exhibitors) had more than one location that integrated the D-BOX motion system and 159 locations had more than one screen incorporating our technology within the same complex.

An increase in the number of equipped theatres has a direct impact on the offering of studios which is based on a business model that benefits all parties since they share the new revenue generated by D-BOX.

Access to content is a key factor in accelerating the deployment of D-BOX motion system. The Corporation is constantly expanding its business relationships with new film and gaming content providers. For instance, over 225 titles, including more than 100 which ranked number 1 at the box office on opening weekend, have been coded so far for presentation in commercial theatres.

The D-BOX experience in commercial theatres will continue to expand significantly through the deployment of its motion systems. This vision is strengthened by the fact that the Corporation has continuously coded content from major studios in addition to coding local content in some countries where D-BOX is now present. Furthermore, it has proven its technical and commercial benefits and has received several awards over the last few years.

However, certain seasonal factors may impact the deployment of new D-BOX motion systems in commercial theatres. The Corporation's growth rate for its commercial theatre business activities is not linear but rather subject to a certain level of volatility when comparing consecutive quarters.

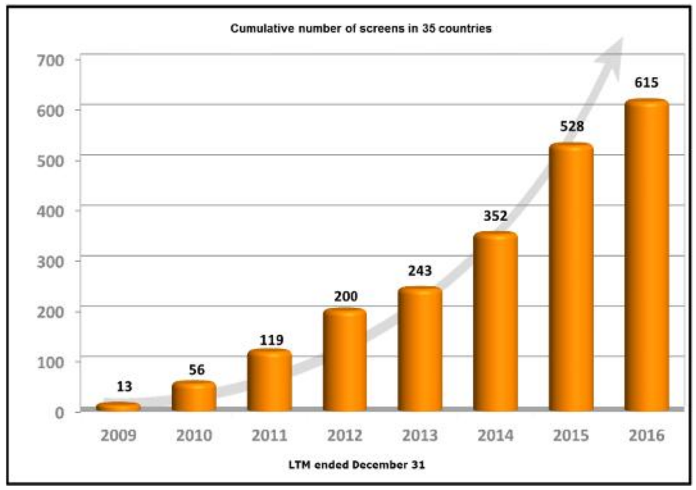
In this respect, the Corporation wishes to remind readers that it remains subject to a number of risks and uncertainties pertaining to its operations (see the "Risks and Uncertainties" section).

Business development efforts targeting commercial theatre chains are handled by an internal business development team and a few external partners in certain countries. Moreover, the Corporation's representatives continue to attend major trade shows. The Corporation believes that the entertainment market is a really good way to demonstrate its technology to the largest number of people possible, and generates significant revenue through utilization rights earned from the use of the technology based on premiums for admission tickets, the sale or rental of motion systems and motion system maintenance contracts. This strategy drives a significant increase in brand awareness.

In measuring achievement of its deployment objectives for theatre chains, the Corporation tracks the installed base of its D-BOX motion systems as well as its backlog. From a practical standpoint, the Corporation defines system backlog as follows: a commitment or an order for D-BOX motion systems received as part of a contractual agreement and for which the installation is scheduled within a twenty-four-month period.

The total screens installed or in backlog increased by 16% and stood at 615 at the end of the quarter in comparison with 528 a year ago.

**Growth of installed screens or in backlog in 35 countries As at December 31, 2016**




With respect to products targeting high-end home entertainment, the Corporation aims to:

1. sell products under its own brand name and under original equipment manufacturers' (OEM), integrators' and resellers' brands;
2. increase the offer of content coded by D-BOX; and
3. create products and form partnerships with strategic players that should accelerate market penetration.

In short, D-BOX has demonstrated so far:

- the willingness of moviegoers to pay a premium on an admission ticket to live a non-distractive motion experience;
- that it generates a new source of business traffic and new revenue for commercial theatre operators allowing them to stand out from competitors and increase their revenue ((i) direct revenue from the sale of tickets in the D-BOX zone and (ii) indirect revenue from the sale of food and beverages);
- that it brings in additional visibility and a new source of revenue for the studios; and
- that it offers a solution to reduce motion dizziness associated with the VR experience.

## 6.3 Growth Strategy/Simulation and Training Market

The simulation and training market contributes significantly to the global awareness of the D-BOX brand thereby sparking consumer interest for the realism and efficiency which can stimulate demand for the D-BOX experience in other sub-markets such as: automotive, defense, flight, heavy equipment/cranes, racing, and wellness. The Corporation is mobilizing resources devoted to the business development of this market with the goal of identifying new partners and meeting their needs.

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 5

With respect to products earmarked for simulation and training simulation users, the Corporation is following its mission to sell products under its own brand, under original equipment manufacturers' brands (OEM's) and through a network of integrators and resellers. It is also adapting its products to address specific requests of manufacturers and OEM's to penetrate new markets.

In the last few years, the Corporation has stepped up its presence at commercial and industrial trade shows which raises awareness of D-BOX and its motion technology.

The Corporation recently developed motion systems adapted to the needs of the simulation and training market and their sales should accelerate over the course of the next few quarters. This trend has been observed since the quarter ended December 31, 2015 as newly developed actuators are gaining in acceptance with existing and new customers.

The Corporation will continue dedicating a team to develop and service this market to identify new potential customers and/or distributors and meet their demands adequately. The main selection criteria for new customers and/or distributors include an efficient international distribution network, a well-renowned name in the market and the willingness to invest the necessary effort and resources to generate new and important revenue streams.

## 7. Non-IFRS Measures

In this MD&A, the Corporation uses two measures that are non-compliant with International Financial Reporting Standards (IFRS): 1) the adjusted EBITDA and 2) the gross profit excluding amortization. Although these measures supply useful and complementary information, they do not have a standardized meaning under IFRS and are not likely to be comparable to similar measures used by other issuers.

1) The adjusted EBITDA provides useful and complementary information which allows, among other things, the evaluation of profitability and cash flows provided by operations. It is comprised of net income (loss) but excludes the following: items not affecting cash, foreign exchange loss (gain), financial expenses (income) and income taxes.

The following table explains the reconciliation of adjusted EBITDA to the net income (loss).

| | Third quarter ended December 31 | | Nine-month period ended December 31 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Net income (loss)** | **(1,638)** | 397 | **(3,178)** | 219 |
| Amortization of property and equipment | **743** | 738 | **1,855** | 1,805 |
| Amortization of intangible assets | **146** | 132 | **446** | 399 |
| Amortization of other assets | **7** | 22 | **9** | 104 |
| Write-off of property and equipment | **10** | 24 | **10** | 158 |
| Share-based payments | **32** | 59 | **94** | 178 |
| Foreign exchange gain | **(18)** | (118) | **(28)** | (452) |
| Financial expenses (net of interest income) | **123** | 129 | **341** | 244 |
| Income taxes (recovery) | — | (12) | — | (1) |
| **Adjusted EBITDA** | **(595)** | 1,371 | **(451)** | 2,654 |

2) The gross profit excluding amortization serves to evaluate the Corporation's capacity to generate funds through product sales by considering the cost of these products while excluding the main non-cash item, namely amortization (see the table explaining the reconciliation of gross profit to gross profit excluding amortization on page 7).

## 8. Main Financial Data

The following tables present selected significant financial data for the third quarter and the nine-month period ended December 31, 2016 by comparing them with the corresponding period of the previous fiscal year.

| Information from the Consolidated Statements of Net Income (Loss) and Other Comprehensive Income (Loss) | Third quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Revenue | **6,803** | 8,221 | **20,796** | 20,430 |
| Gross profit excluding amortization* | **4,215** | 4,974 | **11,993** | 12,261 |
| Net income (loss) | **(1,638)** | 397 | **(3,178)** | 219 |
| Adjusted EBITDA* | **(595)** | 1,371 | **(451)** | 2,654 |
| Basic and diluted net income (loss) per share | **(0.009)** | 0.002 | **(0.018)** | 0.001 |

* See the "Non-IFRS measures" section on page 5.

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 6

| Information from the Consolidated Statements of Cash Flows | Nine months ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Cash flows relating to operating activities | **(4,819)** | 813 |
| Goods held for lease | **(2,733)** | (1,008) |
| Additions to property and equipment | **(540)** | (808) |
| Additions to intangible assets | **(1,257)** | (706) |
| Cash flows relating to financing activities | **201** | 9,836 |

The following table presents certain important financial data of the consolidated balance sheet as at December 31, 2016 and as at March 31, 2016.

| Information from the Consolidated Balance Sheets | As at December 31 2016 | As at March 31, 2016 |
|---|---|---|
| Cash and cash equivalents | **10,084** | 16,454 |
| Inventories | **9,115** | 5,016 |
| Working capital | **16,359** | 21,455 |
| Total assets | **35,570** | 37,200 |
| Total current liabilities | **7,839** | 6,677 |
| Non-current liabilities | **4,562** | 4,420 |
| Equity | **23,169** | 26,103 |

# 9. Operating Results

## 9.1 Revenue

Revenue for the third quarter ended December 31, 2016 decreased by 17% to $6,803 k compared to $8,221 k for the same quarter last year. This decrease is primarily due to a) new technical import regulations in a Latin American country which has slowed delivery and b) a shift in market trends creating demand for a new value added premium product in certain geographical markets. We expect to see the benefit of the shift to this new premium product in the next few quarters.

For the entertainment market, revenue consists of D-BOX motion system sales to commercial theatre operators, revenue from rights for use, rental and maintenance with respect to admission tickets sold in commercial theatres, system sales to home entertainment customers and systems sales to themed entertainment clients.

Revenue also includes motion system sales to customers in the simulation and training market who sell D-BOX motion systems under their own brand names.

During the third quarter ended December 31, 2016, revenue for the entertainment market decreased by 27% to $5,222 k compared to the $7,153 k last year. This variation is mainly due to a decrease of 43% in motion systems sales (from $5,526 k in 2015 to $3,146 k this year) that is primarily due to the aforementioned reasons, and an increase of 28% in revenue from rights for use, rental and maintenance (from $1,627 k last year to $2,076 k this year).

It is important to note that revenue from rights for use, rental and maintenance can fluctuate from one period to another based on the following factors:

- the box office performance of the movies that are presented which can vary significantly from one movie to another;
- the revenue sharing with exhibitors and studios;
- the individual performance of exhibitors;
- the average number of D-BOX motion systems deployed which is constantly evolving;
- the number of weekly screenings of a D-BOX movie which can vary based on the country in which a film is presented, or from one exhibitor to another; and
- the number of weeks a movie is played which can vary based on the country due to different launch dates or the decision made by an exhibitor to present a film for a longer or shorter period of time.

As at December 31, 2016, 573 screens were installed around the world, an increase of 40% compared with 409 screens at the same date last year.

The entertainment market also includes system sales for high-end home entertainment and themed entertainment. Home entertainment revenues increased by 14% to $536 k ($472 k last year) and is mainly due to the exclusive distribution agreement announced in November 2016 with Hangzhou JC City Management Investment Group Limited, a wholly-owned subsidiary of Gold Finance Group, to distribute and promote D-BOX's high-end home entertainment motion system in China. Systems sales from themed entertainment decreased by 8% to $1,356 k ($1,467 k last year) and is explained by the fluctuation in sales delivery from one quarter to the other (year-to-date increase of 33%).

For the simulation and training market, our development strategy consists of selling our motion system technology to customers so they can integrate it into their products. Sales in this market are driven, among other things, by the attendance at commercial and industrial trade shows which contributes to raising awareness to the D-BOX technology and the presentation in commercial theatres of movies integrating the D-BOX Motion Code which creates a growing demand for the D-BOX experience in numerous other sub-markets.

Sales of motion systems to customers of the simulation and training market increased by 48% to $1,581 k for the third quarter ended December 31, 2016 compared to $1,068 k for the third quarter ended December 31, 2015. This increase is explained by new clients and additional orders by existing clients mainly in automotive, gaming, and construction sub-markets.

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 7

For the nine-month period ended December 31, 2016, revenues increased by 2% and amounted to $20,796 k in comparison with $20,430 k for the corresponding period of last year. This is explained by 1) a 1% decrease in the entertainment market from $17,349 k to $17,104 k and 2) a 20% increase in the simulation and training market from $3,081 k to $3,691 k.

## 9.2 Gross Profit

The following table explains the reconciliation of gross profit to gross profit excluding amortization.

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Revenue | **6,803** | 8,221 | **20,796** | 20,430 |
| Gross profit | **3,546** | 4,294 | **10,358** | 10,521 |
| Amortization related to cost of goods sold | **669** | 680 | **1,635** | 1,740 |
| Gross profit excluding amortization* | **4,215** | 4,974 | **11,993** | 12,261 |
| Gross margin excluding amortization | **62%** | 61% | **58%** | 60% |

* See the "Non-IFRS measure" section on page 5.

For the third quarter ended December 31, 2016, gross profit amounted to $3,546 k in comparison with $4,294 k for the corresponding period last year. Excluding amortization related to cost of goods sold, gross profit amounted to $4,215 k (62% of revenues) in comparison with $4,974 k (61% of revenues) last year. The increase in the gross margin is mainly explained by higher revenues from rights for use, rental and maintenance which generate higher margin than revenues from systems sales.

For the nine-month period ended December 31, 2016, gross profit amounted to $10,358 k in comparison with $10,521 k for the corresponding period of the previous fiscal year. Excluding amortization related to cost of goods sold, gross profit amounted to $11,993 k (58% of revenues) in comparison with $12,261 k (60% of revenues) last year. The reduction in the gross margin is explained by lower margins in commercial theatres system sales when entering new markets.

## 9.3 Operating Expenses

**Selling and Marketing:** selling and marketing expenses consist primarily of employee costs including share-based payments, professional fees, advertising and promotional point-of-sales material expenses and attendance at trade shows. They also include expenses related to motion coding and other marketing expenses.

For the third quarter ended December 31, 2016, selling and marketing expenses increased by 38% to $3,003 k (44% of revenue) compared with the $2,180 k (27% of revenue) expensed in the quarter ended December 31, 2015. This variation is mostly explained by: i) more efforts to increase brand awareness in the 35 countries where D-BOX is present for the entertainment market and ii) additional employee costs.

For the nine-month period ended December 31, 2016, selling and marketing expenses amounted to $7,174 k (34% of revenues) which compares to $5,275 k (26% of revenues) for the nine-month period ended December 31, 2015. This 36% increase is mostly explained by selling and marketing activities due to our recent presence in China and in employee costs.

**Administration**: administration expenses consist primarily of employee costs including share-based payments, professional fees as well as other general and administration expenses.

For the third quarter ended December 31, 2016, administration expenses amounted to $1,251 k (18 % of revenue) which compares to $1,085 k (13% of revenue) for the quarter ending December 31, 2015. This 15% increase is explained essentially by additional professional fees.

For the nine-month period ended December 31, 2016, administrative expenses amounted to $3,936 k (19% of revenues) which compares to $3,111 k (15% of revenues) for the nine-month period ended December 31, 2015. This 27% increase is explained essentially by additional professional fees and by the deferred share unit plan ["DSU"] for directors.

**Research and Development:** research and development expenses mainly include costs related to employees, amortization of assets and patents, other costs associated with existing product enhancement, and the cost of adapting products to various international standards, less investment tax credits.

For the third quarter ended December 31, 2016, research and development expenses increased by 30% to $825 k (12% of revenue) compared to $633 k (8% of revenue) for the same quarter of last year. This increase comes from additional resources needed to develop new products.

For the nine-month period ended December 31, 2016, research and development expenses remained the same to $2,113 k (10% of revenues) compared to

$2,125 k (10% of revenues) for the same period last year.

**Foreign Exchange Gain or Loss:** the foreign exchange gain or loss mainly results from the fluctuation of Canadian currency relative to US currency when converting US dollar operations at the prevailing rate on the date of a transaction and the conversion of US dollar monetary assets and liabilities at the end-of-period rate.

For the third quarter ended December 31, 2016, the foreign exchange gain amounted to $18 k which compares to a gain of $118 k for the corresponding quarter of 2015. The foreign exchange variation is explained by the volatility of the Canadian currency in comparison to the US currency over the course of the current period.

For the nine-month period ended December 31, 2016, the foreign exchange gain amounted to $28 k which compares to a gain of $452 k for the corresponding quarter of the previous fiscal year. The foreign-exchange gain is explained by the fluctuation of the Canadian currency in comparison with the US currency over the course of each of these two periods.

## 9.4 Financial Expenses (Income)

For the third quarter ended December 31, 2016, financial expenses net of interest income amounted to $123 k in comparison to $129 k in 2015.

For the nine-month period ended December 31, 2016, financial expenses (net of interest income) amounted to $341 k compared to $244 k in 2015. The increase in financial expenses comes mainly from the interest expense related to the long-term debt issued in August 2015.

## 9.5 Income Taxes

With respect to accounting for future income taxes, the Corporation has concluded that a valuation allowance equal to its future income tax assets should be recorded.

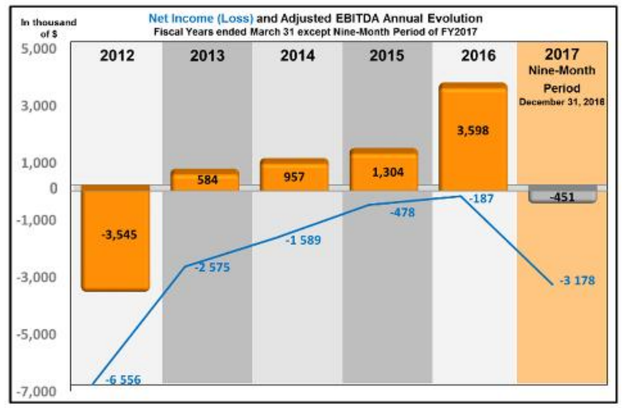
## 9.6 Net Income (Loss)

Given the aforementioned facts, the net loss for the third quarter ended December 31, 2016 amounted to $1,638 k ($0.009 net loss per share) in comparison to a net income of $397 k (basic and diluted net income per share of $0.002) in 2015.

For the nine-month period ended December 31, 2016, the net loss amounted to $3,178 k ($0.018 net loss per share), compared with a net income of $219 k (basic and fully diluted net income per share $0.001) in 2015.

# 10. Adjusted EBITDA

The adjusted EBITDA is comprised of net income (loss) but excludes items not affecting cash, foreign exchange loss (gain), financial expenses (income) and income taxes. This measure provides useful and complementary information which allows, among other things, the evaluation of profitability and cash flows provided by operations.




For the third quarter ended December 31, 2016, the adjusted EBITDA amounted to ($595 k) and includes a restructuring charge of $359 k in comparison to an adjusted EBITDA of $1,371 k for the same period last year.

For the nine months ended December 31, 2016, adjusted EBITDA amounted to ($451 k) compared to $2,654 k for the same period of last year.

Over the last quarters, we focused the business development activities in each of the entertainment and simulation and training markets. We also increased the level of operating expenses aiming, amongst others, to support the sales and marketing of technological innovations that will help solidify D-BOX's position in existing sub-markets and will facilitate entering new ones including China market in the recent quarters.

# 11. Liquidity, Capital Resources and Financing Sources

As at December 31, 2016, total assets amounted to $35,570 k compared to $37,200 k as at March 31, 2016. The variation in total assets is mainly explained by the decrease in cash and cash equivalents less the increase in inventory as explained by operating and investing activities described below.

Working capital decreased by $5,096 k to $16,359 k as at December 31, 2016 compared with $21,455 k as at March 31, 2016 and is mainly attributable to the decrease of $6,370 k in cash and cash equivalents.

Inventories increased by $4,099 k and comes mainly from client's purchase orders delayed in the following quarters. Accounts receivable decreased by $1,986 k and is a result of lower commercial theatres sales at the end of the last quarter. Deferred revenues increased by $1,972 k and comes mainly from a client's deposit for deliveries in the following quarters.

## 11.1 Operating Activities

For the nine-month period ended December 31, 2016, cash flows used by operating activities totalled $4,809 k compared to cash flows generated of $813 k for the corresponding period of the previous fiscal year. This variance in cash used by operating activities of $5,622 k is mainly the result of i) the variation of $2,963 k in cash used in net loss when excluding items not affecting cash, ii) the variation of $3,139 k in cash needed to increase inventories, and iii) the variation of $1,725 k in cash needed for goods held for lease; all of the above is reduced by the favorable variation of $1,921 k in cash generated by deferred revenues.

## 11.2 Investing Activities

For the nine-month period ended December 31, 2016, cash flows used by investing activities amounted to $1,797 k in comparison with $1,514 k for the corresponding period of the previous fiscal year.

Cash flows from investing activities include costs associated to the acquisition of property and equipment which required investments of $540 k for this nine-month period compared to $808 k last year. It also includes investments in intangible assets, mainly patents and internally developed products which required $1,257 k compared to $706 k for the comparable nine-month period last year.

## 11.3 Financing Activities

For the nine-month period ended December 31, 2016, cash flows generated by financing activities amounted to $191 k compared to $9,836 k for the comparable nine-month period last year.

During the nine-month period ended December 31, 2016, the Corporation issued 660,000 Class A common shares (33,333 Class A common shares in 2015) for a total cash consideration of $201 k ($7 k in 2015) on exercise of stock options. An amount of $148 k ($4 k in 2015) representing the initial fair value of the stock options, was credited to share capital and deducted from the share-based payments reserve.

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 k. 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 k was allocated to warrants and $4,565 k was added to share capital. The issue costs of $40 k were allocated to shares and warrants proportionately to their respective estimated fair values. Accordingly, $37 k was deducted from share capital and $3 k was deducted from warrants.

On August 5, 2015, the Corporation issued a loan and 4,500,000 warrants for proceeds of $4,869 k, net of financing fees of $131 k. Each warrant entitles its holder to purchase one Class A common share at $0.50 per share for a 48-month period ending August 5, 2019.

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 k and $357 k, ($117 k and $190 k for the quarter and the nine-month period ended December 31 2015) including an amount of $33 k and $96 k related to the accretion of interest ($29 k and $48 k for the quarter and the nine-month period ended December 31, 2015).

## 11.4 Equity

Equity amounted to $23,169 k as at December 31, 2016, compared with $26,103 k as at March 31, 2016. The decrease in equity comes mainly from the net loss for the period.

## 12. Quarterly Data

Operating results for each of the past eight quarters are presented in the table below.

| | 2017 | | | 2016 | | | | 2015 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| **Revenue from the entertainment market** | | | | | | | | |
| *Commercial theatres:* System sales | **1,254** | 2,508 | 3,216 | 4,880 | 3,586 | 2,208 | 2,564 | 4,418 |
| Rights for use, rental and maintenance | **2,076** | 1,384 | 1,640 | 1,427 | 1,628 | 1,193 | 2,276 | 658 |
| | **3,330** | 3,892 | 4,856 | 6,307 | 5,214 | 3,401 | 4,840 | 5,076 |
| *Home entertainment system sales* | **536** | 285 | 410 | 424 | 472 | 233 | 332 | 254 |
| *Themed entertainment system sales* | **1,356** | 1,320 | 1,120 | 645 | 1,466 | 663 | 728 | 440 |
| **Total revenue Entertainment market** | **5,222** | 5,497 | 6,386 | 7,376 | 7,152 | 4,297 | 5,900 | 5,770 |
| **Revenue from the Simulation and training market** | **1,581** | 834 | 1,276 | 1,236 | 1,069 | 724 | 1,288 | 910 |
| **TOTAL REVENUE** | **6,803** | 6,331 | 7,662 | 8,612 | 8,221 | 5,021 | 7,188 | 6,680 |
| **Adjusted EBITDA*** | **(595)** | (295) | 439 | 944 | 1,371 | 132 | 1,151 | 713 |
| **Net income (loss)** | **(1,638)** | (1,114) | (426) | (406) | 397 | (208) | 30 | 850 |
| **Basic and diluted net income (loss) per share** | **(0,009)** | (0.007) | (0.002) | (0.002) | 0.002 | (0.001) | 0.000 | 0.005 |
| (in thousands) **Weighted average number of common shares outstanding** | **175,150** | 175,021 | 174,977 | 174,929 | 165,509 | 163,791 | 163,784 | 163,784 |

* See the "Non-IFRS Financial Measures" section and the reconciliation table of the adjusted EBITDA to the net loss on page 5.

The fluctuation of revenue during the last eight quarters is explained, among other reasons, by the uneven growth of the entertainment and simulation and training markets. More specifically, for the entertainment market, revenue fluctuated mostly as per the performance of presented films.

## 13. Commitments

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services. The minimum payments for the coming years are as follows:

| | Leases | Other Commitments |
|---|---|---|
| Next twelve months | 256 | 33 |
| Following four years | 516 | 35 |
| Five years and thereafter | 33 | — |
| | **805** | **68** |

The Corporation's operating lease expenses amounted to $90 k in the third quarter ended December 31, 2016 ($133 k in 2015) and has pledged the universality of movable property, both present and future, in favour of the lessors.

## 14. Fully Diluted Share Capital (February 9, 2017)

| | Class A common shares |
|---|---|
| Class A common shares outstanding | 175,588,906 |
| Convertible instruments | |
| Stock options outstanding | 15,107,512 |
| Warrants | 14,833,333 |
| | 205,529,751 |

## 15. Risk and Uncertainties

We are active in an industry which presents many risks and uncertainties. These risks and uncertainties are described in the Annual Information Form (AIF) dated June 21, 2016 which is available on www.sedar.com.

## 16. Disclosure Controls and Internal Controls over Financial Reporting

Internal control over financial reporting aims to provide reasonable insurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the third quarter ended December 31, 2016, there were no changes in the Corporation's internal control over financial reporting that materially affected, or are likely to materially affect, the Corporation's internal control over financial reporting.

## 17. Continuous Information and Additional Disclosure

This MD&A was prepared as at February 9, 2017. Additional information can be found on the SEDAR website at www.sedar.com.

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