



**D-BOX TECHNOLOGIES INC.**

**ANNUAL INFORMATION FORM**

For the fiscal year ended March 31, 2015

**June 18, 2015**

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## GENERAL INFORMATION

This annual information form is dated June 18, 2015. Unless otherwise indicated, the information contained herein is as of March 31, 2015 and all amounts are expressed in Canadian dollars.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain information included in this annual information form may constitute “forward-looking information” within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Corporation does not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on several assumptions which give rise to the possibility that actual results could differ materially from the Corporation’s expectations expressed in or implied by such forward-looking information and that the Corporation’s objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Corporation cannot guarantee that any forward-looking information will materialize. Forward-looking information is provided in this annual information form for the purpose of giving information about Management’s current expectations and plans and allowing investors and others to get a better understanding of the Corporation’s operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information provided in this annual information form is based on a number of assumptions that the Corporation believes were reasonable on the day it provided the forward-looking information. Factors that could cause actual results to differ materially from the Corporation’s expectations expressed in or implied by the forward-looking information include: general economic conditions; changes in product costs and supply channels; ability to develop profitable strategic alliances; foreign currency fluctuations; customer and credit risk, including the concentration of revenues with certain customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; protection of intellectual property, changes in the regulatory environment; continued access to capital resources and the related costs of borrowing; changes in assumptions in the valuation of goodwill and other intangible assets; and ability to attract and retain key executives and a highly-qualified work force. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking information are discussed throughout this annual information form and, in particular, under “Risk Factors”.

The Corporation cautions readers that the risks described above are not the only ones that could have an impact on it. Additional risks and uncertainties not currently known to the Corporation or that the Corporation currently deems to be immaterial may also have a material adverse effect on the Corporation's business, financial condition or results of operations.

## CORPORATE STRUCTURE

### NAME, ADDRESS AND INCORPORATION

D-BOX Audio Inc. ("D-BOX Audio") was incorporated on December 15, 1992 pursuant to the *Companies Act* (Québec) under the name 2967-8141 Québec Inc. On February 16, 1994, its Articles were amended to change the corporate name to D-BOX Audio Inc. On September 1, 2000, all of the issued and outstanding shares of D-BOX Audio were acquired by way of a reverse takeover by Altitude Venture Capital Corporation/Corporation de capital de Risque Altitude ("Altitude"), a junior capital pool company listed on the TSX Venture Exchange. On April 1, 2011, the Corporation graduated from the TSX Venture Exchange to the Toronto Stock Exchange.

Altitude was incorporated on June 19, 1998 pursuant to the *Canada Business Corporations Act*. On September 28, 1998, the articles of Altitude were amended to add certain borrowing powers. Following the reverse takeover of D-BOX Audio, the Articles of Altitude were amended on November 22, 2000 to change the corporate name to D-BOX Technologies Inc./ Technologies D-BOX Inc. D-BOX Audio was dissolved on August 30, 2001 and its assets and operations were transferred to its parent company. The Articles of the Corporation were again amended on August 19, 2004 to give the Board of Directors the authority to appoint additional directors in compliance with the *Canada Business Corporations Act*.

The sole subsidiary of the Corporation, D-BOX USA Inc. ("D-BOX USA") was incorporated under the laws of the State of Delaware on May 16, 2006. D-BOX USA is a wholly-owned subsidiary of the Corporation. Unless the context indicates otherwise, in this annual information form "D-BOX" refers to the Corporation together with D-BOX USA and also reflects the business originally carried on by D-BOX Audio.

The Corporation's headquarters are located at 2172 de la Province Street, Longueuil, Québec, J4G 1R7. As at March 31, 2015, D-BOX had 86 employees compared to 71 on March 31, 2014.

## GENERAL DEVELOPMENT OF THE BUSINESS

As a result of agreements entered into with leaders in both the entertainment and industrial markets, the Corporation's motion technology is emerging as the standard that is recognized around the world by all key players.

The Corporation's revenue streams mainly consist 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;
4. coding rights for visual content.

The Corporation focuses on two distinct markets for its motion systems: the **entertainment market** and the **industrial market**.

## **HISTORY OF THE CORPORATION OVER THE LAST THREE FISCAL YEARS (APRIL 1, 2012 TO MARCH 31, 2015)**

### **Entertainment Market**

During fiscal year 2013, 66 screens were installed or in backlog in commercial theatres for a total, as at March 31, 2013, of 206 screens worldwide.

During fiscal year 2014, 58 screens were installed or in backlog for a total, as at March 31, 2014, of 264 screens worldwide.

During fiscal year 2015, 137 screens were installed or in backlog for a total, as at March 31, 2015, of 401 screens worldwide.

In January 2015, in the home entertainment sub-market, D-BOX introduced a Home Entertainment Motion Controller (HEMC™) which is capable of analyzing and recognizing the content that is watched by the end-user in real time regardless of the source of such content (streaming, Blu-Ray, cable/satellite, Netflix, Apple TV, Hulu, etc.). D-BOX introduced simultaneously a new cinema server (Synchro Cinema™) which also recognizes films that are played by commercial theatres. Such innovations allow the end-user or commercial theatre to instantly obtain the appropriate D-BOX Motion Code without requiring it to be embedded into the content prior to its viewing.

### **Industrial Market**

Over the years, the Corporation has developed many business partnerships with Original Equipment Manufacturers (OEM), integrators and resellers, thus expanding its reach into markets such as simulation and training, arcades, military, virtual reality, theme parks, museums and planetariums. The Corporation recently developed new motion systems adapted to the needs of other potential sub-markets, such as longer stroke actuators, which allow D-BOX to target a wider array of customers.

## **DESCRIPTION OF THE BUSINESS**

### **OPERATIONS**

D-BOX designs, manufactures and commercializes cutting-edge motion systems intended for the entertainment and industrial markets. With its unique and patented technology, D-BOX generates motion effects specifically programmed for each visual content, which are sent to a motion system integrated either within a platform, a seat or various types of equipment. The resulting motion is perfectly synchronized with the on-screen visual, thus creating an unmatched realistic immersive experience.

The majority of the Corporation's products are designed and assembled at the Corporation's headquarters and are sold either under the D-BOX brand or, when embedded into other products, under private brands by seat manufacturers, Original Equipment Manufacturers (OEM), integrators and resellers. This latter marketing method offers the advantage of minimizing sales and marketing costs, which are assumed by the product resellers.

In March 2009, the Corporation opened a studio in a highly secure environment located in Hollywood, California, for the purpose of creating motion effects for theatrical releases of Hollywood productions. This facility was moved to a newer and larger space in Burbank, California in April of 2015. Motion effects for all other sub-markets are created at the Corporation's head office.

### **CORPORATE STRATEGY**

As a pioneer in its field, the Corporation has been developing and fine-tuning advanced motion systems for several years. With its considerable technological advance, D-BOX now stands as the global reference in the creation and design of immersive motion systems for both the entertainment and industrial markets. The Corporation is constantly developing new products to meet the needs of its clientele and maintain its leading position in the field of motion simulation.

## **Entertainment Market**

The Corporation relies on its privileged 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. D-BOX believes that an increase in the offering of motion pictures is having a direct impact on the number of equipped theatre venues and that box office revenue per D-BOX-equipped theatre acts as a motivational agent 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 clientele of the home entertainment sub-market, who want 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 industrial market.

The Corporation believes that the entertainment market, in addition to being an excellent showcase for the demonstration of its technology to the largest number of people possible, generates increasingly large revenues through utilization rights earned from the use of the technology based on premiums on admission tickets, the sale or rental of motion systems and revenue from motion system maintenance. This strategy drives a significant increase in brand awareness.

## **Industrial Market**

The industrial market is influenced by the entertainment market, which continues to significantly increase its overall awareness of the D-BOX brand, also stimulating customer interest for the audio video motion (AVM) experience, so as to bolster demand for D-BOX in other sub-markets. The Corporation is mobilizing resources that are devoted to the business deployment of these constantly growing sub-markets, with a view to continue to find new potential partners, satisfy their needs and meet their requests.

With respect to industrial simulation users, the Corporation continues its mission to sell products under its own brand and under the brand of Original Equipment Manufacturers (OEM), integrators and resellers, and to tailor products to the specific requests of Original Equipment Manufacturers so as to penetrate new sub-markets.

## **PRODUCTS**

The unique D-BOX motion technology, when combined with image and sound, creates and reinforces an unmatched realistic immersive experience.

Three components produce motion synchronized with image and sound:

1. the software motion effects programmed frame by frame based on visual content;
2. a motion controller serving as an interface between the visual content (films, video games, simulation and training, amusement ride) and the D-BOX motion system;
3. the D-BOX motion system, consisting amongst other things of proprietary electromechanical actuators built into a platform, a seat, or another type of equipment.

## **Entertainment Market**

In the case of commercial theatres, D-BOX Motion Code is created by motion designers and delivered to commercial theatres prior to each theatrical release. The motion effects are uploaded from the D-BOX server to the D-BOX

transmitter located in the projection room which in turn sends the information to all the D-BOX motion systems located in auditorium. The Corporation markets the following products:

1. **D-BOX server:** a device that transfers the motion effects to the transmitter and allows for remote technical support as well as remote updating of firmware and software in each commercial theatre.
2. **D-BOX transmitter:** a device that feeds the D-BOX Motion Code to the D-BOX motion systems.
3. **D-BOX motion systems:** the D-BOX actuators embedded in commercial theatre seats.

The products offered to consumers in the home theatre sub-market are:

1. The **SRP series:** a motion platform that adjusts to several types of seats and love seats;
2. A **motion system that can be embedded in a seat:** the motion system is embedded in a seat by seating manufacturers to then be sold by authorized resellers; and
3. The **motion controller:** a device that synchronizes and processes D-BOX Motion Code and sends the motion effects to the actuators.

The Corporation markets the following products for home video gaming:

1. The sale of D-BOX **actuators** to OEMs who integrate them into their own products and sell them directly to consumers or resellers;
2. The **motion interface:** a device that synchronizes and decodes D-BOX Motion Code and transmits the motion effects to actuators.

## **Industrial Market**

As part of its business relationships with Original Equipment Manufacturers, integrators and resellers, the Corporation offers motion integration kits for OEMs. Each motion integration kit includes D-BOX actuators and electronic actuator control modules that transmit the D-BOX Motion Code to the actuators.

## **MARKETING ACTIVITIES**

### **Entertainment Market**

In order to promote its products and technology, the Corporation primarily conducts the following marketing activities:

1. Participation at major cinema-related trade shows and conferences worldwide;
2. Promotion of the Corporation through banners, lighted posters and advertising clips screened in commercial theatres where D-BOX is available;
3. Sale of demonstration units in lobbies of various commercial theatres showing trailers of upcoming movies featuring D-BOX Motion Code as well as in various in-theatres marketing material;
4. Organization of promotional events at trade shows, at openings of new commercial theatres, in the media (television, radio, magazines, etc.), on the Corporation's website, on commercial theatre and studio websites, on other targeted websites and through social media such as Facebook, Twitter and YouTube;
5. Production of motion code for various commercials screened in theatres;
6. Distribution of customer surveys to gather information on the appreciation of the D-BOX experience;
7. Creation of local ambassadors in commercial theatres to promote D-BOX and provide training program for commercial theatre employees.

## **Industrial Market**

Since the Corporation does business mainly with Original Equipment Manufacturers (OEMs) in the industrial market, the majority of the marketing activities targeting these sub-markets are conducted by the Corporation's OEM partners because they are in charge of integrating the D-BOX actuators into products marketed under their own brands. D-BOX also participates in targeted trade shows for the purpose of demonstrating all the potential uses of the D-BOX technology in order to develop new partnerships with OEMs, integrators and resellers. The Corporation also promotes its technology to OEMs via promotional videos that it shows on YouTube, among other outlets.

## **DISTRIBUTION**

### **Entertainment Market**

Depending on the type of D-BOX server the commercial theatre is using, the distribution of the D-BOX motion effects is either handled by the studios, distributors, or by third parties such as Deluxe Digital Media or Technicolor, or it is delivered electronically by D-BOX to the commercial theatre. For home entertainment, the D-BOX motion effects are embedded in the film or video game distributed by the studio or distributor, or is downloaded by the D-BOX motion controller installed at the user's home.

The sale and installation of the Corporation's systems in commercial theatres is mainly carried out by its internal teams worldwide. However, there is a growing trend at D-BOX to penetrate international markets through a local third party who carries out business development activities and assists in the installation of the D-BOX equipment.

The home entertainment product resale and distribution network features several distributors around the world that resell to local retail outlets or directly to consumers.

### **Industrial Market**

Almost all of the Corporation's products that are destined for the industrial market are sold as standalone products to OEMs and integrators who are in charge of incorporating our products into their own finished products which are then marketed and distributed under their respective brands. D-BOX continues to focus its efforts on developing partnership programs with OEMs, who use their own networks to distribute D-BOX's products.

## **INTELLECTUAL PROPERTY**

D-BOX's technology is protected by one hundred and two (102) patent applications filed worldwide, including forty-five (45) patent applications that were approved by competent authorities. The Corporation files its applications for registration strategically, depending on the jurisdiction of filing, marketing and the patent's dominance.

The patented aspects of D-BOX's technology fall into three distinct families of innovations:

- a. **Electro-mechanical actuators:** optimization of joints; coupling; linear actuators; swivel; ball screws;
- b. **Hardware:** platform attached to a piece of furniture, hubs and chain links between motion systems; motion code controller / decoder; LCD screen on theatrical seating products;
- c. **Software / methods:** synchronization of motion code; use of existing sound signal encoding format to provide motion signal; distribution of the motion code to a number of motion platforms simultaneously; method of selling premium tickets for motion experience in movie theatres; method of optimizing the rendering of the motion experience (theatrical, industrial simulation, training, gaming).

The trade-marks D-BOX, MOVE THE WORLD, MOTION ARCHITECTS, LIVE THE ACTION, Synchro Cinema, HEMC and D-BOX Motion Code, whether in text or graphical form, are owned by D-BOX and in most cases are registered or in the process of being registered in Canada in most countries or territories in which these trade-marks are used.

All aspects of the D-BOX motion effects are protected by copyright.

## **RESEARCH AND DEVELOPMENT**

D-BOX is constantly monitoring the technological landscape in the field of motion systems. D-BOX's major development efforts are aimed at offering new technological solutions at a competitive price intended for a rapidly growing list of sub-markets in the entertainment and industrial markets. In the past year, the Corporation has launched new products that respond to the new needs of the Corporation's diverse clientele. In addition, D-BOX is continuously developing new software tools to optimize and automate its operations as much as possible, such as the programming of motion codes without compromising the quality of D-BOX products.

### **Entertainment Market**

The Corporation annually devotes substantial resources to developing and improving its products. These advancements have made it possible for the Corporation to release products for a variety of applications for the commercial theatre and home entertainment sub-markets. These initiatives also focus on adapting the system to various international markets in order to comply with local standards and certifications required in each targeted country. Concurrently, D-BOX maintains ties with the largest video game designers in the world, which provide content to be coded as required. D-BOX continues to develop new products to adequately meet demand from this sub-market in the future.

D-BOX introduced a Home Entertainment Motion Controller (HEMC™) which is capable of analyzing and recognizing the content that is watched by the end-user in real time regardless of the source of such content (streaming, Blu-Ray, cable/satellite, Netflix, Apple TV, Hulu, etc.). D-BOX introduced simultaneously a new cinema server (Synchro Cinema™) which also recognizes films that are played by commercial theatres. Such innovations allow the end-user or commercial theatre to instantly obtain the appropriate D-BOX Motion Code without requiring it to be embedded into the content prior to its viewing.

Based on its recent research on human perception, the Corporation also developed new internal design tools to facilitate motion code design while improving user experience.

### **Industrial Market**

In this market, as in the entertainment market, the Corporation constantly strives to reduce manufacturing costs for its products for various applications for the OEM, integrator and reseller markets. Currently, research initiatives are focused mainly on the development of new products, which reflect general changes in the technology and the various content transmission modes. D-BOX continues to develop new partnerships with Original Equipment Manufacturers (OEM) that incorporate the hardware component (actuators) of the motion systems produced by D-BOX into their own systems. The research team is also pursuing research and development of new actuator technologies to address the needs of specific markets and is continuously testing and stressing its new products for best quality and reliability.

## **PRODUCTION AND SERVICE**

The final assembly of all of the Corporation's motion systems is conducted at its headquarters, by its production staff. Certain products marketed by manufacturers of armchairs, OEMs and integrators that include D-BOX motion systems are assembled in their facilities. The Corporation rents a total of 29,124 sq. ft. of space, comprised of office space, warehouse space and space for production and research and development. The premises are leased until July 2018.

With respect to the entertainment market, customer service is provided by the Corporation or by third party service providers who already, in many cases, provide various other services to commercial theatres. A standard warranty is offered on all home entertainment products, product sales to Original Equipment Manufacturers and on the sales of D-BOX equipment to commercial theatres.

Each commercial theatre is equipped with a D-BOX server connected to the Internet, allowing the Corporation to monitor each screening room around the world in real time, to ensure the flawless operation of the system and make the required updates. All anomalies are immediately reported to the Corporation's technicians, so that they can quickly address the situation.

## **RISK FACTORS**

Investors should carefully analyze the following risk factors in addition to the other information contained in this Annual Information Form. These risks and uncertainties are not the only ones that could affect the Corporation. Further risks and uncertainties that are currently unknown or that the Corporation deems immaterial could potentially have an impact on the commercial activities of the Corporation and lower the price of its shares. The materialization of any of the following risks may have an impact on the activities of the Corporation and a negative impact on its financial position and operating results. In that event, the price of the Corporation's shares may decrease.

### **Future Funding Requirements**

Should the future development and demand grow considerably and in an unplanned manner, the Corporation could require additional capital either from the issuance of shares and the sale of debt or equity securities. There can be no assurance that the Corporation will be able to raise the required capital to continue growing, developing and marketing its technology. Failure by D-BOX to raise additional capital could adversely affect its activities, revenues, financial position and operating results.

### **Economic Conditions**

Although the product line developed and marketed by the Corporation makes its technology increasingly affordable, demand for such products is exposed to fluctuating economic conditions. Consequently, any slowdown in economic growth could reduce demand for D-BOX's products and adversely affect its activities, revenues, financial position and operating results.

### **Strategic Alliances**

The rapid deployment of the Corporation's technology as well as its future growth depend in part on its ability to develop alliances with strategic partners. Failure by D-BOX to develop such strategic alliances could adversely affect its activities, revenues, financial position and operating results.

### **Access to Content**

Commercial deployment of the Corporation in commercial theatres depends, in part, on its ability to obtain content on an ongoing basis. Failure by D-BOX to maintain a continuous flow of content could adversely affect its activities, revenues, financial position and operating results.

### **Distribution Network**

Growth in the Corporation's business depends in part on its ability to develop well targeted marketing and distribution channels, increase its number of points of sale and attract new customers worldwide. Failure by D-BOX to do so could adversely affect its activities, revenues, financial position and operating results.

### **Exchange Rate between the Canadian Dollar and U.S. Dollar**

Since most of the Corporation's sales are made in U.S. dollars and the majority of its expenses are incurred in Canadian dollars, its revenues and profitability are affected by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. The ability for the Corporation to adjust selling prices for its products to reflect exchange rate fluctuations is limited. Accordingly, whenever necessary, the Corporation protects itself partially from exposure to fluctuations in the U.S. dollar by entering into agreements under which it sets a fixed exchange rate relative to the Canadian dollar.

### **Manufacturing Costs**

The Corporation is continually seeking out ways to reduce its manufacturing costs, which allows it to further reduce selling prices for its products, increase its business volume thereby improving profit margins. The Corporation's ability to reduce manufacturing costs depends on successful research and development, component purchasing volumes generating savings of scale and fluctuations in material costs.

## **Competition**

The D-BOX motion technology rests on a combination of patents, copyrights, trade-marks and other intellectual property protection laws. Other products and technologies have appeared or could be introduced in the market place by competitors. These competitors could have significant financial resources to develop and commercialize their products, which could adversely affect D-BOX's activities, revenues, financial position and operating results.

## **Dependence on One Client**

The Corporation sold 32% and 21% of its products to two clients in the industrial market and sold 20% and 10% of its products to two clients in the entertainment market during the fiscal year ended March 31, 2015. These customers will remain significant in the coming fiscal years. If these customers were to reduce, postpone or discontinue current or planned purchases of the Corporation's products, such a change could adversely affect the Corporation's activities, revenues, financial position and operating results.

## **Credit Risk**

As at March 31, 2015, two customers accounted for 47% and 7% of total accounts receivable and 56% of accounts receivable were insured for 90% of all accounts receivable. The Corporation evaluates the solvency of its customers to limit the amount of credit offered and sets if necessary a provision for bad debts. The Corporation currently uses insurance coverage to minimize its risk.

## **Reputational Risk through Social Media**

Social media offers a widely accessible platform to promote the Corporation's activities but possesses inherent risks that can harm its reputation. More specifically, social media and other forums for discussion establish a multilateral mode of communication that allows users to communicate their opinions. Although the Corporation believes that it operates in a manner that is respectful to all stakeholders and that it takes care of protecting its image and reputation, the Corporation does not ultimately have direct control over how it is perceived by others and its reputation can be damaged through negative publicity expressed by other users, whether true or not. Reputation loss may harm investor confidence, increase challenges in developing and maintaining community relations and thereby have a material adverse effect on D-BOX's business, revenues, financial position and operating results.

## **Dependence on Suppliers**

Product manufacturing at D-BOX depends largely on the availability of several components and products. Their delivery must be timely and they must correspond to the quality, quantity and cost criteria established by the Corporation. The majority of these are standard components, but some are manufactured by only a few suppliers. The Corporation believes it would be able to be supplied by other manufacturers were the current suppliers to limit or discontinue production of components for its products. However, losing a supplier could adversely affect D-BOX's activities, revenues, financial position and operating results.

## **Warranty, Recalls and Lawsuits**

The Corporation is exposed to costs related to warranties, product recalls, and potentially lawsuits or other claims, particularly if its products were to prove defective, which would adversely affect the Corporation's business development and reputation. Although the Corporation currently maintains product liability insurance, its obligation to pay a claim under this liability, if the Corporation is found liable, may lead to financial obligations beyond the amount of the insurance coverage or which may be excluded from such insurance coverage, and which may have a material adverse effect on D-BOX's business, revenues, financial position and operating results.

## Intellectual Property

The Corporation's patents could be incomplete, invalid, skirted, challenged, or rendered unenforceable. In addition, patents in the process of being approved could be denied or not offer the desired protection. Lawsuits could be required to enforce the patents and other intellectual property of D-BOX. These disputes could be very expensive, with no guarantee of success. The loss of a patent or any other intellectual property could adversely affect D-BOX activities, revenues, financial position and operating results.

## Dependence on Key Personnel and Labour Relations

D-BOX's success relies on its ability to attract and retain a highly qualified work force. Failure to retain qualified staff and the loss of key employees could compromise the pace and success of product development.

## DIVIDENDS

As of the date hereof, the Corporation has not paid any dividends and currently intends to reinvest all its future earnings to finance the growth of its business. As a result, the Corporation does not intend to pay dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend on the Corporation's financial condition, operating results and capital requirements as well as on any other factors that the Board of Directors may deem relevant.

## MARKET FOR SECURITIES

The Corporation's Class A common shares are listed on the Toronto Stock Exchange under the symbol "DBO."

The following table sets forth the shares' highest and lowest sales prices and the trading volume on a monthly basis since the beginning of the fiscal year ended on March 31, 2015, until June 17, 2015.

Fiscal Year	Month	Price Range		Volume
		High	Low	
2014	April.....	\$0.39	\$0.235	4,109,413
	May.....	0.29	0.26	652,440
	June.....	0.30	0.25	1,809,658
	July.....	0.285	0.26	1,132,438
	August.....	0.28	0.24	2,208,127
	September.....	0.26	0.20	1,266,465
	October.....	0.27	0.22	1,466,340
	November.....	0.27	0.23	1,299,141
	December.....	0.245	0.18	2,006,297
	2015	January.....	0.22	0.165
February.....		0.25	0.20	3,421,487
March.....		0.255	0.205	2,277,346
April.....		0.385	0.21	8,296,696
May.....		0.33	0.26	3,050,536
June (to June 17, 2015).....		0.31	0.27	1,560,306

## CAPITAL STRUCTURE OF THE CORPORATION

### DESCRIPTION OF CAPITAL STRUCTURE

The Corporation's authorized share capital consists of an unlimited number of Class A common shares without par value and an unlimited number of Class B preferred shares issuable in series.

The Class A common shares of the Corporation entitle holders thereof to one vote per share at meetings of the Corporation's shareholders. Subject to the prior rights of any other shares ranking senior thereto, holders of Class A common shares are entitled to receive any dividends that may be declared by the Board of Directors of the Corporation and any return of capital in the event of the Corporation's liquidation or dissolution or any other distribution of the Corporation's assets for the purpose of winding up its affairs. As at March 31, 2015, 163,784,462 Class A common shares were issued and outstanding.

The Class B preferred shares may be issued in or more series carrying such rights and subject to such conditions as may be determined by the Board of Directors. There are no voting rights attached to the Class B preferred shares, except as prescribed by law. The Class B preferred shares will rank senior to the Class A common shares with respect to the payment of dividends and the return of capital in the event of the Corporation's liquidation or dissolution or any other distribution of the Corporation's assets for the purpose of winding up its affairs. No Class B preferred shares are currently issued and outstanding.

## DIRECTORS AND EXECUTIVE OFFICERS

### DIRECTORS

As of the present date, the Board of Directors consists of eight directors. Each director holds office until the end of the next annual meeting of shareholders or until the election or nomination of his successor, unless he or she resigns or his or her office becomes vacant by removal, death or other cause. The following table sets out the name of each of the current directors, their principal occupations and the year in which they first became directors of the Corporation.

Name and Municipality of Residence	Position	Principal Occupation	First Year as Director
Jean Lamarre <sup>(1)</sup> Montréal, Québec, Canada	Chairman of the Board of Directors	President Lamarre Consultants	2013
Louis Bernier <sup>(2)</sup> Montréal, Québec, Canada	Director	Partner Fasken Martineau DuMoulin LLP	2014
Louis Brunel <sup>(2)</sup> Île Bizard, Québec, Canada	Director	Consultant and Corporate Director	2008
Gary M. Collins Vancouver, British Columbia, Canada	Director	Senior Partner with Verus Partners	2015
Kit Dalaroy <sup>(1)</sup> Montréal, Québec, Canada	Director	Partner and Chief Financial Officer Landry Investment Management	2013
Sylvain Lafrance <sup>(2)</sup> Montréal, Québec, Canada	Director	Chairman of the Board of Directors for the Québec Film and Television Council, Adjunct Professor -HEC Montréal	2014
Claude Mc Master Saint-Lambert, Québec, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Corporation	2006
Élaine C. Phénix <sup>(1)</sup> Verdun, Québec, Canada	Director	President Phénix Capital Inc.	2004

(1) Member of the Audit Committee.

(2) Member of the Compensation and Corporate Governance Committee.

The directors of the Corporation have held the following principal occupations during the last five years:

Mr. Jean Lamarre has more than 35 years of experience in international business development, finance and corporate strategy and holds a Bachelor of Business Administration with a major in Applied Economics from HEC Montréal. He is a partner of Lamarre Consultants which he founded in 1995. This corporation offers strategic advice and organizes financing for companies in their establishment and expansion efforts mainly in the fields of information technology and life sciences. Mr. Lamarre served as Executive Chairman of the Board of Directors of Semafo Inc. from June 2008 until January 2015 and he is now Chairman of the Board of Directors. He is also the Chairman of the Board of *Télé-Québec*, the daily newspaper *Le Devoir*, and sits on the Board of Directors of, among others, TSO3 Inc., Argos Therapeutics Inc. and Klox Technologies Inc. He previously served as the international Vice-President of Canam Manac Group primarily in the

management of international operations and major projects. For 15 years, Mr. Lamarre worked for the Lavalin Group. He worked in the Brussels office as European Vice-President, supervising operations in Belgium, England and Norway. Prior to that, he was Vice-President, Finance and Administration at Lavalin Group.

Louis P. Bernier is a partner at Fasken Martineau. He specializes in labour and employment law, providing legal counsel on all employment-related matters and he has also accumulated a vast wealth of experience in all aspects of work organization and operations management, particularly in the course of restructurings and subcontracting, sale and merger transactions. He also specializes in administrative and constitutional law, especially as these relate to extraordinary remedies and issues arising from the charter of rights and freedoms. He frequently advises company directors and officers on strategic matters including ethics issues, codes of ethics and corporate governance. Mtre Bernier is often called upon to plead before various organizations and courts of both provincial and federal jurisdiction. He also deals with cases involving personal information protection. He is a member of the International Society for Labour and Social Security Law and a member of the board of directors and executive committee of the Fédération des chambres de commerce du Québec, where he serves as chairman of the labour committee. He is recognized by *The Best Lawyers in Canada* as an expert in labour and employment law. He is also recognized by *Lexpert* in employment law (repeatedly recommended) and labour law (consistently recommended).

Mr. Louis Brunel was President and Chief Executive Officer of the Institut international des télécommunications from March 2002 to September 2008. Mr. Brunel, an executive officer and corporate director, has spent most of his career in the communications and information technology sectors. Before joining the Institut international des télécommunications, Mr. Brunel held executive positions in Canada, Europe and the United States. He worked for Vidéotron Ltd. for more than 20 years, including 12 years spent expanding and operating Vidéotron International. He was notably Vice-Chairman and Group Managing Director of Videotron Holdings Plc, a public company operating integrated telecommunications services in the United Kingdom, held in majority by Vidéotron Ltd. and BCE Inc., the sale of which generated significant value for its shareholders. Prior thereto, he worked during more than ten years with the Université du Québec, where he successively held the positions of Vice-President, Information Technologies and Communications, and was Chairman of the Board of Directors and Managing Director of the École nationale d'administration publique (ENAP).

Mr. Gary M. Collins is a Senior Partner with Verus Partners, an investment bank. Previously he served as the President of Coastal Contacts Inc., the world's largest e-commerce provider of direct to consumer contact lenses and prescription eye glasses from July 2012 to May 2014 when the company was sold to Essilor International. Mr. Collins has served as a member of the Board of Chorus Aviation Inc. (formerly Jazz Air Income Corporation) since 2008. He also has served as a Director of Liquor Stores North America since 2006. Mr. Collins was President and CEO of Harmony Airways from December 2004 to December 2006, and from April 2007 until May 2012 he was the Senior Vice President of Belkorp Industries Inc. (a private investment management company). Mr. Collins served as a Director of Catalyst Paper Corporation from 2005 to 2010 and as a Director of Lantic Sugar from 2008 to 2012. Previously Mr. Collins spent 13 years as a Member of the British Columbia Legislative Assembly, including serving as British Columbia's Minister of Finance from 2001 to 2005.

Mr. Kit Dalaroy began his career in 1991 with Donaldson, Lufkin and Jenrette as a financial analyst in New York. He then joined Citigroup (Toronto) where he was promoted to Vice President and specialised in corporate financings and cross border mergers and acquisitions. In 2002, Kit Dalaroy joined BCE as Vice President of M&A. In 2005, as Managing Director at Credit Suisse and then Deutsche Bank, Mr. Dalaroy serves as strategic advisor in several major transactions. Mr. Dalaroy joined National Bank Financial as a Senior Managing Director. Following National Bank, Mr. Dalaroy was an advisor at Champlain Financial Corporation. Currently, Mr. Dalaroy is a partner and the Chief Financial Officer of Landry Investment Management where Champlain has a minority investment. Mr. Dalaroy holds an Honours B.A. in Economics and Political Science from the University of North Carolina at Chapel Hill. He is chairman of the Fondation du Collège Jean Eudes and a board member of La Fondation du Père Sablon. Mr. Dalaroy is also a 2002 recipient of Canada's Top 40 under 40 which is an award given to Canadians under the age of 40 who are outstanding leaders in their chosen fields.

Mr. Sylvain Lafrance joined Société Radio-Canada in 1978 as a journalist. He rapidly progressed through the organization to become Line Producer, Director and General Manager of Radio. In 1998, he became Vice-President, French Radio of CBC. In the fall of 2005, the Board of Directors of CBC/Radio-Canada appointed him Executive Vice President, French Services of CBC and entrusted him with the mandate to proceed with the integration of CBC's radio, television and Internet services in order to create one of the most important French language public broadcasting groups - the only one in North America. Mr. Lafrance is a Knight of the Ordre de la Pléiade, awarded by the Parliamentary Assembly of the Francophonie, Knight of the Ordre des Arts et des Lettres and Knight of the Légion

d'honneur of the French Republic. He is also a member of the Order of Canada. He is currently an adjunct professor at HEC Montréal and sits on the boards of Directors of the Société des alcools du Québec, Victoria Square Group and the Orchestre Symphonique de Montréal and he is Chairman of the Québec Film and Television Council.

Mr. Claude Mc Master joined the Corporation in 2003 as Chief Financial Officer and Executive Vice-President, and was appointed President and Chief Executive Officer in 2005. Prior to that, he was Vice-President, Finance, Mergers and Acquisitions at Ernst & Young from 2001 to 2003, where he spearheaded many international projects, led multidisciplinary teams, forged strategic alliances and guided the growth of companies. In 1994, he founded and headed consulting firm AVINGCO, which was sold to Arthur Andersen in 1998, where he became a partner supporting high-tech and life sciences companies in the launch of new products, financing and expanding their international influence. He has taken many executive training programs, such as the Corporate Governance in Public Companies, ICD.D, given by the McGill Institute of Corporate Directors, and the Global Financial Management Executive Program given by Harvard Business School. In February 2011, Mr. Mc Master was named 2011 SGF CEO of the Year –Les Affaires, an exclusive award for the presidents of technology companies organized by the Association québécoise des technologies (AQT). He is currently a member of the Board of Directors of the Business Development of Canada (BDC) and the Montreal Heart Institute Foundation. He is also a member of the Advisory Committee of Nexio Group.

Ms. Éline Cousineau Phénix holds a Bachelor of Arts with Honours from the Collège Jean-de-Brébeuf, is a Fellow of the Canadian Securities Institute and a certified corporate director (CCD) from the Collège des administrateurs de sociétés. Mrs. Phénix counts over twenty-five (25) years of experience in the Canadian capital market, especially as Senior Vice-President, Syndication, at Lévesque, Beaubien, Geoffrion Inc. (now National Bank Financial Inc.) and as Senior Vice-President, Capital Development at the Montreal Exchange. Since 1999, Ms. Phénix is President of Phénix Capital Inc. acting as consultant in assets management for institutional and private clients. Ms. Phénix is currently member of five (5) boards of directors and serves on several audit and governance committees.

## EXECUTIVE OFFICERS

The following table sets out the name of each executive officer, their current position with the Corporation as well as the date at which they first became officers of the Corporation:

Name and Municipality of Residence	Current Position	Executive Officer Since
Claude Mc Master Saint-Lambert, Québec, Canada	President, Chief Executive Officer	September 2003
Luc Audet <sup>(1)</sup> L'Assomption, Québec, Canada	Chief Financial Officer	October 2008
Philippe Roy Saint-Bruno, Québec, Canada	Chief Business Development Officer	November 1999
Robert Desautels Vaudreuil-sur-le-lac, Québec, Canada	Senior Vice-President, Technology, Strategy and Operations	October 2014

(1) Luc Audet was the Chief Financial Officer of FRV Media Inc. ("FRV") from April 2008 to December 2009. On March 5, 2009, a cease trade order was issued by the *Autorité des marchés financiers* against FRV for failing to file its annual financial statements. Such cease trade order was in effect for a period of more than 30 consecutive days.

The members of senior management have held the positions indicated above for more than five years except Mr. Philippe Roy who was the Chief Technological Officer until April 2013, and Mr. Robert Desautels who was Vice-President – Marketing, Technology and Customer Solutions at Quebecor World, WorldColor and Quad/Graphics from 2008 to 2012, and who was Senior Vice-President Marketing at D-BOX from 2013 to October 2014.

## **SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS**

As of June 18, 2015, the directors and executive officers of D-BOX, as a group, are the beneficial owners of, directly or indirectly, or exercise control or direction over an aggregate of 4,938,661 Class A common shares of the Corporation, representing 3% of the 163,784,462 Class A common shares issued and outstanding of the Corporation. None of the directors or executive officers of the Corporation owns or controls voting shares of D-BOX USA. The information in this paragraph was provided by the relevant directors and executive officers of the Corporation.

## **INFORMATION REGARDING THE AUDIT COMMITTEE**

### **AUDIT COMMITTEE CHARTER**

The Audit Committee is currently composed of Éleine C. Phénix, Kit Dalaroy and Jean Lamarre. Under *Multilateral Instrument 52-110 Respecting Audit Committees*, a director serving on an audit committee is “independent” if he or she has no direct or indirect material relationship with the issuer, that is, a relationship which could, in the view of the Board of Directors, reasonably be expected to interfere with the exercise of the members’ independent judgment. The Board of Directors has determined that all members of the Audit Committee are independent members.

The Board of Directors has determined that each of the three members of the Audit Committee is “financially literate” within the meaning of Section 1.6 of *Multilateral Instrument 52-110 Respecting Audit Committees*, that is, each member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

### **EDUCATION AND RELEVANT EXPERIENCE**

The education and experience of each member of the Audit Committee that is relevant to his or her responsibilities are set out below.

Ms. Éleine Cousineau Phénix holds a Bachelor of Arts with Honours from the Collège Jean-de-Brébeuf, is a Fellow of the Canadian Securities Institute and a certified corporate director (CCD) from the Collège des administrateurs de sociétés. Mrs. Phénix counts over twenty-five (25) years of experience in the Canadian capital market, especially as Senior Vice-President, Syndication, at Lévesque, Beaubien, Geoffrion Inc. (now National Bank Financial Inc.) and as Senior Vice-President, Capital Development at the Montreal Exchange. Since 1999, Ms. Phénix is President of Phénix Capital Inc. acting as consultant in assets management for institutional and private clients. Ms. Phénix is currently member of five (5) boards of directors and serves on several audit and governance committees.

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Mr. Jean Lamarre has more than 35 years of experience in international business development, finance and corporate strategy and holds a Bachelor of Business Administration with a major in Applied Economics from HEC Montréal. He is a partner of Lamarre Consultants which he founded in 1995. This corporation offers strategic advice and organizes financing for companies in their establishment and expansion efforts mainly in the fields of information technology and life sciences. Mr. Lamarre served as Executive Chairman of the Board of Directors of Semafo Inc. from June 2008 until January 2015 and he is now Chairman of the Board of Directors. He is also the Chairman of the Board of *Télé-Québec*, the

daily newspaper *Le Devoir*, and sits on the Board of Directors of, among others, TSO3 Inc., Argos Therapeutics Inc. and Kloxx Technologies Inc. He previously served as the international Vice-President of Canam Manac Group primarily in the management of international operations and major projects. For 15 years, Mr. Lamarre worked for the Lavalin Group. He worked in the Brussels office as European Vice-President, supervising operations in Belgium, England and Norway. Prior to that, he was Vice-President, Finance and Administration at Lavalin Group.

## **PRE-APPROVAL POLICIES AND PROCEDURES FOR AUDIT SERVICES**

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services. However, the charter of the Audit Committee provides that the provision of any non-audit services must first be considered by the Audit Committee.

### **Independent Auditors' Fees**

#### *Audit Fees*

"Audit fees" consist of fees for professional services for the audit of the Corporation's annual consolidated financial statements, help in preparing the interim financial statements and related matters. Ernst & Young LLP, the Corporation's independent auditors, billed the Corporation \$81,100 in audit fees during the fiscal year ended March 31, 2015, and \$79,500 in audit fees during the fiscal year ended March 31, 2014.

#### *Audit-Related Fees*

"Audit-related fees" consist of fees for professional services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and which are not reported under "Audit Fees" above, such as the assistance for implementing the International Financial Reporting Standards. Ernst & Young LLP, the Corporation's independent auditors, did not bill the Corporation in audit-related fees during the fiscal year ended March 31, 2015, and billed \$12,750 in audit-related fees during the fiscal year ended March 31, 2014.

#### *Tax Fees*

"Tax fees" consist of fees for professional services for tax compliance, tax advice and tax planning. Ernst & Young LLP, the Corporation's independent auditors, did not bill the Corporation in tax fees during the fiscal years ended March 31, 2015 and 2014.

#### *All Other Fees*

"All other fees" consist of fees for services other than the audit fees, audit-related fees and tax fees described hereinabove. These services include translation services. Ernst & Young LLP, the Corporation's independent auditors, did not bill the Corporation in fees for other services during the fiscal year ended March 31, 2015 and billed \$6,300 for other fees during the fiscal year ended March 31, 2014.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

During the fiscal year ended March 31, 2015, and based on applicable regulations in this matter, the Corporation is not, and was not a party to, nor was its property subject to legal proceedings or regulatory actions. To the knowledge of the Corporation, no legal proceedings or regulatory actions are currently contemplated.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No insiders, directors or executive officers of the Corporation or any of their respective associates has or has had a material interest, direct or indirect, in any material transaction whether proposed or concluded which had or may have an adverse effect on the Corporation or its subsidiaries in the last three completed fiscal years.

## **MATERIAL CONTRACTS**

The Corporation has not entered into any material contracts since April 1, 2014, and no such material contract was entered into before the end of the last fiscal year that would still be in effect as of the date hereof.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the shares of the Corporation is Computershare Investor Services Inc. at its principal offices in Montréal.

## **INTERESTS OF EXPERTS**

Ernst & Young LLP have been the independent auditors of the Corporation since 2004 and accordingly, have signed the auditors' report on the consolidated annual financial statements of the Corporation for the fiscal year ended March 31, 2015.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be found through the Internet on SEDAR, which can be accessed at [www.sedar.com](http://www.sedar.com).

Additional information, including the compensation and indebtedness of directors and senior executives, the principal holders of the Corporation's shares and the shares authorized for issuance under the Stock Option Plan, if any, is contained in the Corporation's management proxy circular for its most recent annual meeting of shareholders where the Corporation's directors have been elected.

Additional financial information is provided in the Corporation's consolidated financial statements and management's discussion and analysis for its fiscal year ended March 31, 2015.

Additional information concerning the Corporation's products can also be found at [www.d-box.com](http://www.d-box.com), the Corporation's website.

## **SCHEDULE A**

### **AUDIT COMMITTEE CHARTER OF D-BOX TECHNOLOGIES INC.**

#### **1. PURPOSE**

Financial reporting and disclosure by D-BOX Technologies Inc. (the “Corporation”) represents one of the most important aspects of the management of the Corporation’s business and affairs. The Board of Directors supervises this financial reporting and disclosure process to gain reasonable assurance that the following objectives are being met:

- (a) that the Corporation complies with the laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (b) that the accounting policies and practices, significant decisions and information which underlie or are incorporated in the Corporation’s financial statements are the most appropriate in the circumstances;
- (c) that the Corporation’s quarterly and annual financial statements are accurate and present fairly the Corporation’s financial position and performance in accordance with the International Financial Reporting Standards (“IFRS”); and
- (d) that pertinent information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner.

To assist the Board of Directors in its monitoring of the Corporation’s financial reporting and disclosure process, the Board of Directors has established the Audit Committee.

Although the Audit Committee has the powers and responsibilities set forth in this Charter, its role is one of monitoring. The members of the Audit Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the Audit Committee to audit the Corporation’s financial statements and information or to assess whether same are complete and accurate and in compliance with IFRS and applicable rules and regulations. This is the responsibility of management, the independent auditors and other professionals retained by the Corporation.

#### **2. COMPOSITION AND QUALIFICATION**

The members of the Audit Committee are appointed each year by the Board of Directors. The Committee is composed of a minimum of three (3) independent directors chosen from among the members of the Board of Directors. The members are appointed at the first meeting following the annual meeting of shareholders or at any other meeting if a vacancy arises. Each year, the Board of Directors appoints as chair of the Committee one of the members of the Committee.

All the members of the Audit Committee shall be financially literate and, as such, be able to read and understand financial statements. At least one (1) member of the Audit Committee shall have “accounting or related financial expertise” acquired through previous employment experience in the area of finance or accounting, requisite professional certification in accounting or any other comparable experience or background which allowed him or her to gain such financial expertise, including having been a Chief Executive Officer, Chief Financial Officer or other senior officer with financial oversight responsibilities, and be able to analyze and interpret a complete set of financial statements along with the notes thereto in accordance with IFRS.

In connection with the execution of the obligations of the Audit Committee, each member of the Committee shall be entitled to rely in good faith upon the following documents:

- (a) the financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the independent auditors to present fairly the financial position of the Corporation in accordance with IFRS; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

In connection with the execution of the obligations of the Audit Committee pursuant to this mandate, each member of the Audit Committee shall be held to the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. Nothing in this mandate is intended, or may be construed, to impose on any

member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the other members of the Board of Directors are subject. The role of the Audit Committee is essentially to monitor and review in order to gain reasonable assurance (but not absolute assurance) that the fundamental accounting and reporting activities are being conducted effectively, that the financial reporting and disclosure objectives are being met and to report thereon to the Board of Directors.

### 3. OPERATING PRINCIPLES AND GUIDELINES

The Audit Committee fulfills its responsibilities within the context of the following principles and guidelines:

- (a) The Committee chair and the other members of the Audit Committee have direct, open and frank communications throughout the year with management, other committee chairs (where applicable) and members of the Board of Directors, the independent auditors and other key committee advisors, as applicable.
- (b) The Committee, together with management and the independent auditors, shall develop annually an audit committee work plan in line with the responsibilities of the Audit Committee as set out in this Charter.
- (c) The Audit Committee, together with management and the independent auditors, shall participate in the examination and review of any important financial issues and emerging standards that have the potential to impact on the Corporation's financial presentation and disclosure.
- (d) The chair of the Committee shall establish the agenda for each meeting of the Audit Committee, with the other members of the Audit Committee, senior management and the independent auditors.
- (e) The Committee shall communicate to management and the independent auditors its expectations with respect to the nature and extent of the information it requires, and the delays to be respected in this regard. The Committee expects to receive from management and the independent auditors all pertinent documentation with respect to any topic on the agenda for a meeting at least one week in advance of such meeting.
- (f) The Committee may, at the expense of the Corporation and after consulting with management, retain the services of one or more persons with specialized knowledge in order to allow the Committee to properly discharge its responsibility.
- (g) At each meeting of the Committee, the members of the Audit Committee meet *in camera* amongst themselves only with (as needed) the independent auditors only and with management only.
- (h) After each meeting of the Audit Committee, the Committee shall report to the Board of Directors at its next regular meeting or earlier if required, through the chair of the Committee.
- (i) As representatives of the shareholders, the independent auditors are ultimately accountable to the Board of Directors and the Audit Committee in the execution of its mandate. The Committee expects that the independent auditors will point out any significant issues or any other issues which may become significant and which result from its relationship with the Corporation.

The Audit Committee meets at least once per quarter, and more frequently if required by the circumstances. It is the responsibility of the Committee to determine the time and place, at which the meeting will take place, convene the meeting and to establish the procedures in light of the following requirements:

- (a) at all meetings of the Audit Committee a majority of the members shall constitute a quorum; and
- (b) any actions on the part of the Audit Committee at a duly constituted meeting require no more than the vote of a majority of the members present and, in all cases, a resolution or other instrument in writing signed by all of the members of the Audit Committee shall be deemed to be an action taken by the Audit Committee.

The senior officer responsible for the finances of the Corporation and the independent auditors usually attend all of the meetings of the Audit Committee.

The minutes of meetings of the Audit Committee are approved by the Committee and delivered to the Board of Directors for informational purposes.

The Secretary of the Corporation acts as the secretary of the Audit Committee.

#### **4. RESPONSIBILITIES AND DUTIES**

The Committee is responsible for the following:

##### **4.1 Financial Reporting**

- Review the annual financial statements and the independent auditor's report thereon before they are released and recommend same for the approval of the Board of Directors.
- Review the interim and year-end financial statements, management's discussion and analysis and related news releases before they are released and recommend same for the approval of the Board of Directors.
- Review public disclosure documents, such as a prospectus or the annual information form, containing consolidated financial statements of the Corporation before they are released, and recommend same for the approval of the Board of Directors.
- Review any summary statement which highlights interim or annual financial information as well as any financial projections destined for the financial niches, securities dealers and financial institutions before same are released.
- Discuss with management and the independent auditors the pertinence of and compliance with the Corporation's accounting policies.
- Discuss with management any significant variances between comparative reporting periods and across comparable units.

##### **4.2 Accounting Policies**

- Proactively discuss and review the impact of proposed changes in accounting standards or securities polices or regulations relating to accounting policies and the disclosure of financial information.
- Review with management and the independent auditors, any proposed changes in accounting policies, as well as key estimates and decisions that could have a material impact on the Corporation's financial reporting and determine whether the underlying accounting policies, disclosures and key estimates and decisions are considered to be the most appropriate in the circumstances.
- Discuss with management and the independent auditors the clarity and adequacy of the financial information disclosed by the Corporation.
- Review examples of accounting policies and financial reporting practices relied on by management of the Corporation in comparison with the accounting policies and disclosure practices adopted by other companies operating in the same industry.

##### **4.3 Risk and Uncertainties**

Recognizing that it is the Board of Directors' responsibility, in conjunction with management, to (1) identify the principal business risks facing the Corporation, (2) determine the Corporation's degree of tolerance to risk, and (3) approve risk management policies, the Audit Committee focuses on the significant financial risks and develops reasonable assurance that such risks are being effectively managed and controlled by management through the implementation of the following methods:

- Acquire reasonable assurance that these significant financial risks are effectively being mitigated and controlled by:
  - (i) Reviewing with management, at least once per quarter, an updated list of such financial risks as well as ongoing or special actions undertaken to manage each one of these identified risks;

- (ii) Discussing with management its assessment of the residual financial exposure of the Corporation if any, resulting from its management of such financial risks; and
  - (iii) Ensuring with management, that the existing policies, processes and programs are adequate to identify, manage and control such financial risks.
- Review, at least once per year, the adequacy of the insurance policies maintained by the Corporation.
  - Review quarterly the list of the Corporation's outstanding contingent liabilities, if any, including legal claims, tax assessments and other, which could have a material effect upon the financial results and condition of the Corporation and the manner in which these matters are disclosed in the financial statements.
  - Review, at least once per year, the adequacy of measures taken by the Corporation to mitigate foreign currency, interest rate and other financial risks, such as the use of derivative financial instruments.
  - Review, at least one per year, the policies that require significant existing or potential liabilities, contingent or otherwise, to be reported to the Board of Directors in a timely fashion and compliance with such policies.

#### **4.4 Financial Controls and Deviations**

- Review annually the plans of the independent auditors to gain reasonable assurance that the internal quality-controls procedures are adequate in light of the risks and are comprehensive, coordinated and cost effective.
- Review quarterly, with management, its program relating to the development and updating of internal controls which shows the progress of any planned initiatives as well as any measures taken to control deviations.
- Receive from management, the independent auditors, legal counsel or other persons, regular reports regarding any significant deviations observed, including any detection of fraud, and the methods taken to correct the situation.
- Discuss with management the information used by the Chief Financial Officer to prepare a report, at least once per year, on the effectiveness of the Corporation's internal controls.

#### **4.5 Compliance with Laws and Regulations**

- Review regular reports from management, the independent auditors and legal counsel concerning the Corporation's compliance with tax and financial reporting laws and regulations specifically those requiring the Corporation to make withholdings and which have a material impact on financial statements.

#### **4.6 Relationship with Independent Auditors**

- Recommend annually to the Board of Directors the nomination, the termination or replacement of the independent auditors.
- Approve the remuneration and terms and conditions of the independent auditor's mandate which are set out in its engagement letter.
- Receive annually from the independent auditors an acknowledgment in writing that the shareholders, who are represented by the Board of Directors and the Committee, are its primary client.
- Receive a report annually from the independent auditors with respect to its independence, which report shall include disclosure relating to all engagements (including the related fees and costs) for non-audit services rendered to the Corporation.
- Review with the independent auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the independent audit can be coordinated with internal audit activities and the materiality levels which the independent auditors propose to employ.

- Establish effective communication processes with management and the Corporation's independent auditors to allow the Committee to objectively monitor the quality and efficiency of the relationship between the independent auditors, management and the Corporation.
- Receive reports from the independent auditors on the status of the approved audit plan, any important findings, the recommendation letter and the final audit report.
- Meet regularly with the independent auditors in the absence of management.
- Establish annually, a list of services that may not be provided by the independent auditors in order to safeguard its objectivity and independence. Ensure that the list of prescribed services is in compliance with the applicable regulatory requirements.
- Be kept up to date, before any mandate is conferred upon the independent auditors, of any significant services, other than audit services, to be provided by the independent auditors.
- Annually review the Corporation's hiring policy limiting the hiring of certain present or former employees of the independent auditors.
- Review reports of the independent auditors relating to the planned rotation of partners assigned to the Corporation's affairs.

#### **4.7 Other Responsibilities and Issues**

- Review and reassess annually the adequacy of this Charter.
- After consulting with the chair and the independent auditors, gain reasonable assurance, at least annually, that the Corporation's accounting and financial personnel is competent and adequately staffed and that any other related resources are sufficient.
- Be kept up to date of any nomination of financial officers with respect to the Corporation.
- Carry out any and all duties that the Board of Directors may delegate, from time to time, to the Committee.