

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

June 30, 2016

Notice

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

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As at
[in thousands of Canadian dollars]

	Notes	June 30, 2016 \$	March 31, 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents		13,111	16,454
Accounts receivable		5,202	6,159
Derivative financial instruments		36	25
Inventories	3	5,549	5,016
Prepaid expenses and deposits		840	478
		24,738	28,132
Non-current assets			
Property and equipment		8,213	6,940
Intangible assets		2,228	2,110
Other assets		16	18
		35,195	37,200
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		4,763	6,114
Warranty provision		14	14
Deferred revenues		223	549
		5,000	6,677
Non-current liabilities			
Long-term debt	4	4,451	4,420
		9,451	11,097
Equity			
Share capital	5.1	62,294	62,254
Share-based payments reserve		5,259	5,234
Warrants reserve		959	959
Foreign currency translation reserve		(404)	(406)
Deficit		(42,364)	(41,938)
		25,744	26,103
		35,195	37,200

See accompanying notes.

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

First quarters ended June 30

[in thousands of Canadian dollars, except share and per-share amounts]

	Notes	2016 \$	2015 \$
Revenues			
Motion systems for:			
Entertainment market:			
Commercial theatres:			
System sales		3,216	2,564
Rights for use, rental and maintenance		1,640	2,276
		4,856	4,840
Home entertainment system sales		410	332
Themed entertainment system sales		1,120	728
		6,386	5,900
Simulation and training market			
		1,276	1,288
		7,662	7,188
Cost of goods sold excluding amortization	6.1	3,148	2,718
Amortization related to cost of goods sold		513	625
Cost of goods sold		3,661	3,343
Gross profit		4,001	3,845
Other expenses			
Selling and marketing	6.2	2,242	1,667
Administration	6.3	1,325	991
Research and development	6.4	768	975
Foreign exchange loss (gain)		(14)	159
		4,321	3,792
Income (loss) before financial expenses (income) and income taxes		(320)	53
Financial expenses (income)			
Financial expenses		150	21
Interest income		(44)	(9)
		106	12
Income (loss) before income taxes		(426)	41
Income taxes		—	11
Net income (loss)		(426)	30
<i>Items that will be reclassified to net income (loss) in subsequent periods:</i>			
Foreign currency translation gain		2	21
Comprehensive income (loss)		(424)	51
Basic and diluted net income (loss) per share		(0.002)	0.000
Weighted average number of common shares outstanding		174,976,708	163,784,462
Diluted weighted average number of common shares		174,976,708	171,180,329

See accompanying notes.

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

First quarters ended June 30
[in thousands of Canadian dollars]

	Notes	Share capital \$	Share- based payments reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total \$
Balance as at March 31, 2016		62,254	5,234	959	(406)	(41,938)	26,103
Net loss		—	—	—	—	(426)	(426)
Foreign currency translation gain		—	—	—	2	—	2
Comprehensive loss		—	—	—	2	(426)	(424)
Issue of share capital	5.1	40	(16)	—	—	—	24
Share-based payments	5.2	—	41	—	—	—	41
Balance as at June 30, 2016		62,294	5,259	959	(404)	(42,364)	25,744
Balance as at March 31, 2015		57,715	5,014	—	(385)	(41,751)	20,593
Net income		—	—	—	—	30	30
Foreign currency translation gain		—	—	—	21	—	21
Comprehensive income		—	—	—	21	30	51
Share-based payments	5.2	—	57	—	—	—	57
Balance as at June 30, 2015		57,715	5,071	—	(364)	(41,721)	20,701

See accompanying notes.

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

First quarters ended June 30
[in thousands of Canadian dollars]

	Notes	2016 \$	2015 \$
OPERATING ACTIVITIES			
Net income (loss)		(426)	30
Items not affecting cash			
Amortization of property and equipment		579	599
Amortization of intangible assets		151	130
Amortization of other assets		2	63
Write-off of property and equipment		—	90
Share-based payments	5.2	41	57
Unrealized foreign exchange loss		54	130
Accretion of interest expense		31	—
Cash flows from operations before changes in working capital items		432	1,099
Changes in working capital items:			
Accounts receivable		922	112
Derivative financial instruments		(11)	(98)
Inventories		(533)	(494)
Prepaid expenses and deposits		(362)	(41)
Goods held for lease		(1,654)	(362)
Accounts payable and accrued liabilities		(1,362)	(169)
Deferred revenues		(326)	64
		(3,326)	(988)
Cash flows relating to operating activities		(2,894)	111
INVESTING ACTIVITIES			
Additions to property and equipment		(194)	(367)
Additions to intangible assets		(269)	(203)
Cash flows relating to investing activities		(463)	(570)
FINANCING ACTIVITIES			
Shares issued on exercise of option	5.1	24	—
Cash flows relating to financing activities		24	—
Effect of exchange rate fluctuations on cash and cash equivalents		(10)	(11)
Net change in cash and cash equivalents		(3,343)	(470)
Cash and cash equivalents, beginning of period		16,454	6,710
Cash and cash equivalents, end of period		13,111	6,240
Cash and cash equivalents consist of:			
Cash		2,358	3,677
Cash equivalents		10,753	2,563
Interest and income taxes included in operating activities:			
Interest paid		87	—
Income taxes paid		5	24

See accompanying notes.

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

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

1. DESCRIPTION OF BUSINESS

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

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

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

The unaudited interim condensed consolidated financial statements were approved by the Corporation’s Board of Directors on August 11, 2016.

2. BASIS OF PRESENTATION

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

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

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

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

3. INVENTORIES

	June 30, 2016 \$	March 31, 2016 \$
Parts and components	4,322	3,645
Finished goods	1,227	1,371
	5,549	5,016

4. LONG-TERM DEBT

	June 30, 2016 \$	March 31, 2016 \$
Balance	4,451	4,420

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

During the quarter ended June 30, 2016, the interest expense on long-term debt charged to income amounted to \$118 k, including an amount of \$31 k related to the accretion of interest.

5. EQUITY

5.1 *Share Capital*

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

	2016		2015	
	#	\$	#	\$
Balance as at March 31	174,928,906	62,254	163,784,462	57,715
Shares issued on exercise of options	75,000	40	—	—
Balance as at June 30	175,003,906	62,294	163,784,462	57,715

During the period, the Corporation issued 75,000 Class A common shares for a total cash consideration of \$24 on exercise of stock options. An amount of \$16, representing the initial fair value of the stock options, was credited to share capital and deducted from the share-based payments reserve.

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

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5.2 Stock Option Plan

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

	2016		2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance as at March 31	15,126,845	0.37	14,879,345	0.37
Options granted	200,000	0.61	40,000	0.28
Options exercised	(75,000)	0.32	—	—
Options cancelled	—	—	(66,667)	0.21
Balance as at June 30	15,251,845	0.37	14,852,678	0.37
Options exercisable at end of period	13,364,331	0.39	11,402,657	0.42

The fair value for options granted during the three-month period ended June 30, 2016 and 2015 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 0.9% weighted average risk-free interest rate [1.2% in 2015]; no dividend issued in 2016 and 2015; 74% weighted average volatility factor of the expected market price for the Corporation's shares [81% in 2015]; 3.53% weighted average cancellation rate [3.46% in 2015]; \$0.63 weighted average share price [\$0.28 in 2015] and an expected weighted average option life of 6.3 years [6 years in 2015]. The expected life of stock options is based on historical data and is not necessarily indicative of exercise patterns that might occur. The expected volatility reflects the assumption that historical volatility over a term similar to the option term is indicative of future trends, which might not be the case.

The weighted average of the estimated fair values at the grant date of the options awarded during the period is \$0.42 per option [\$0.20 per option in 2015], amortized through income over the vesting periods of the options.

For the period ended June 30, 2016, the share-based compensation expense charged to income amounted to \$41 [\$57 for the period ended June 30, 2015] with a corresponding amount recognized under share-based payment reserve.

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

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5.3 Share Unit Plans

In June 2016, a restricted share unit plan [“RSU”] and a deferred share unit plan [“DSU”] were adopted by the Board of Directors. The liabilities resulting from these share unit plans will be measured at fair value at the grant date and measured again at the end of each reporting period and at settlement date. Any change in fair value will be recognized in the consolidated statements of net income (loss) and other comprehensive income (loss). As at June 30, 2016, there was no grant under those plans.

6. SUPPLEMENTARY INFORMATION ON THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

6.1 Cost of Goods Sold Excluding Amortization

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

	2016	2015
	\$	\$
Cost of parts and components	2,768	2,340
Employee costs	156	179
Freight charges and import duties	60	68
Production supplies	24	30
Maintenance of goods held for lease	—	8
Impairment of parts and components	31	4
Share-based payments	—	2
Outsourcing fees	75	64
Other	34	23
	3,148	2,718

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

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6.2 Selling and Marketing

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

	2016	2015
	\$	\$
Employee costs	1,334	1,027
Professional fees	262	182
Trade show expenses	186	145
Travel and entertainment expenses	132	60
Advertising and promotional material	97	40
Amortization of property and equipment	44	46
Office rental	31	34
Freight charges and import duties	(23)	18
Write-off of property and equipment	—	18
Share-based payments	14	9
Other	165	88
	2,242	1,667

6.3 Administration

The key components of administrative expenses are detailed as follows for the three-month periods ended June 30:

	2016	2015
	\$	\$
Employee costs	760	562
Professional fees	201	66
Amortization of property and equipment, and intangible assets	129	73
Costs related to publicly traded company	54	53
Insurance	53	40
Director fees	48	32
Share-based payments	27	43
Non deductible commodity taxes	14	25
Other	39	97
	1,325	991

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

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6.4 Research and Development

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

	2016	2015
	\$	\$
Employee costs	461	445
Materials and certification	155	30
Amortization of property and equipment, and intangible assets	46	48
Professional fees	44	45
Investment tax credits reversal (tax credits)	(11)	350
Share-based payments	—	3
Other	73	54
	768	975