

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

September 30, 2017

Notice

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

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As at
[in thousands of Canadian dollars]

	Notes	September 30, 2017 \$	March 31, 2017 \$
ASSETS			
Current assets			
Cash and cash equivalents		9,114	8,867
Accounts receivable		4,408	5,517
Derivative financial instruments		132	—
Inventories	3	7,809	8,334
Prepaid expenses and deposits		627	612
		22,090	23,330
Non-current assets			
Property and equipment		8,074	8,443
Intangible assets		3,369	3,249
Other assets		22	9
		33,555	35,031
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		5,240	5,006
Derivative financial instruments		—	30
Warranty provision		124	124
Deferred revenues		1,100	1,463
		6,464	6,623
Non-current liabilities			
Share-based compensation liability	4	69	51
Employee benefit		399	203
Long-term debt	5	4,619	4,549
		11,551	11,426
Equity			
Share capital	6.1	62,762	62,762
Share-based payments reserve		5,287	5,151
Warrants reserve	6.3	528	959
Foreign currency translation reserve		(350)	(437)
Deficit		(46,223)	(44,830)
		22,004	23,605
		33,555	35,031

See accompanying notes.

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

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

	Notes	Second Quarter		Six Months	
		2017 \$	2016 \$	2017 \$	2016 \$
Revenues					
Motion systems for:					
Entertainment market:					
Commercial theatres:					
System sales		2,133	2,508	5,248	5,724
Rights for use, rental and maintenance		1,828	1,384	3,978	3,024
		3,961	3,892	9,226	8,748
Home entertainment system sales		1,211	285	1,962	695
Themed entertainment system sales		903	1,320	1,345	2,440
		6,075	5,497	12,533	11,883
Simulation and training market		1,578	834	3,261	2,110
		7,653	6,331	15,794	13,993
Cost of goods sold excluding amortization	7.1	3,183	3,067	6,394	6,215
Amortization related to cost of goods sold		469	453	951	966
Cost of goods sold		3,652	3,520	7,345	7,181
Gross profit		4,001	2,811	8,449	6,812
Other expenses					
Selling and marketing	7.2	2,420	1,929	4,935	4,171
Administration	7.3	1,548	1,360	3,265	2,685
Research and development	7.4	679	520	1,587	1,288
Foreign exchange loss (gain)		59	4	214	(10)
		4,706	3,813	10,001	8,134
Loss before financial expenses (income) and income taxes		(705)	(1,002)	(1,552)	(1,322)
Financial expenses (income)					
Financial expenses		142	149	287	299
Interest income		(11)	(37)	(20)	(81)
		131	112	267	218
Loss before income taxes		(836)	(1,114)	(1,819)	(1,540)
Income taxes		4	—	5	—
Net loss		(840)	(1,114)	(1,824)	(1,540)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation (loss) gain		46	(13)	87	(11)
Comprehensive loss		(794)	(1,127)	(1,737)	(1,551)
Basic and diluted net loss per share		(0.004)	(0.007)	(0.010)	(0.009)
Weighted average number of common shares outstanding		175,950,573	175,021,515	175,950,573	174,999,234

See accompanying notes.

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

Six-month periods ended September 30, 2017 and 2016

[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, 2017		62,762	5,151	959	(437)	(44,830)	23,605
Net loss		—	—	—	—	(1,824)	(1,824)
Foreign currency translation gain		—	—	—	87	—	87
Comprehensive loss		—	—	—	87	(1,824)	(1,737)
Share-based payments	6.2	—	136	—	—	—	136
Expiration of warrants	6.3	—	—	(431)	—	431	—
Balance as at September 30, 2017		62,762	5,287	528	(350)	(46,223)	22,004
Balance as at March 31, 2016		62,254	5,234	959	(406)	(41,938)	26,103
Net loss		—	—	—	—	(1,540)	(1,540)
Foreign currency translation loss		—	—	—	(11)	—	(11)
Comprehensive loss		—	—	—	(11)	(1,540)	(1,551)
Issue of share capital	6.1	53	(22)	—	—	—	31
Share-based payments	6.2	—	62	—	—	—	62
Balance as at September 30, 2016		62,307	5,274	959	(417)	(43,478)	24,645

See accompanying notes.

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

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

	Notes	2017 \$	2016 \$
OPERATING ACTIVITIES			
Net loss		(1,824)	(1,540)
Items not affecting cash			
Amortization of property and equipment		1,170	1,112
Amortization of intangible assets		326	300
Amortization of other assets		2	2
Share-based payments	6.2	136	62
Unrealized foreign exchange gain		(335)	(148)
Share-based compensation liability		18	328
Employee benefit liability		196	—
Accretion of interest expense		70	63
Cash flows from operations before changes in working capital items		(241)	(179)
Changes in working capital items:			
Accounts receivable		1,407	2,065
Derivative financial instruments		(162)	22
Inventories		525	(2,447)
Prepaid expenses and deposits		(15)	(317)
Goods held for lease		(547)	(2,004)
Other assets		(15)	—
Accounts payable and accrued liabilities		526	(1,429)
Warranty provision		—	25
Deferred revenues		(363)	(366)
		1,356	(4,451)
Cash flows relating to operating activities		1,115	(4,272)
INVESTING ACTIVITIES			
Additions to property and equipment		(367)	(383)
Additions to intangible assets		(417)	(836)
Cash flows relating to investing activities		(784)	(1,219)
FINANCING ACTIVITIES			
Shares issued on exercise of options	6.1	—	31
Cash flows relating to financing activities		—	31
Effect of exchange rate fluctuations on cash and cash equivalents		(84)	18
Net change in cash and cash equivalents		247	(5,442)
Cash and cash equivalents, beginning of period		8,867	16,454
Cash and cash equivalents, end of period		9,114	11,012
Cash and cash equivalents consist of:			
Cash		3,462	3,322
Cash equivalents		5,652	7,690
Interest included in operating activities:			
Interest paid		176	176
Income tax paid		5	—

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 2017

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

1. DESCRIPTION OF BUSINESS

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

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

The Corporation evaluates its operating results and allocates resources on the basis of its one operating segment which is the design, manufacture and sale of cutting-edge motion systems. 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, home entertainment consumer products, particularly video games and home theatres, and themed entertainment motion systems. The simulation and training market consists of products for industrial simulators, industrial training and other applications.

The unaudited interim condensed consolidated financial statements were approved by the Corporation's Board of Directors on November 8, 2017.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards 34 ["IAS 34"], *Interim Financial Reporting*, and accordingly, they are interim condensed consolidated financial statements because they do not include all disclosures required under International Financial Reporting Standards ["IFRS"] for annual consolidated financial statements. Thus, these interim condensed consolidated financial statements should be read in conjunction with the March 31, 2017 annual consolidated financial statements which include the same accounting policies used in the preparation of these financial statements.

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

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2.1 New Accounting Pronouncements

Standards issued but not yet effective

- IFRS 9, *Financial Instruments*, is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. The Corporation is currently assessing the impact of the adoption of this pronouncement on its consolidated financial statements.
- IFRS 15, *Revenue from Contracts with Customers*, is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

For the Corporation, the standard comes into effect on April 1, 2018, and as a result, IFRS 15 will be adopted in the first quarter of fiscal year 2019. The majority of the revenues of the Corporation are generated from the sales of motion systems to clients of entertainment market and simulation and training market. The Corporation anticipates that the allocation of the transaction price to future performance obligations in certain contracts will change. This change will result in the recognition of different amounts of revenue for each performance obligation and will affect the timing of such revenue recognition. The Corporation is also assessing whether there is a significant financing component on contracts where timing of cash receipts and revenue recognition differ substantially. The Corporation will provide further updates during the course of fiscal year 2018 as it advances in its assessment.

- IFRS 16, *Leases*, is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that the IFRS 15 has been applied or is applied at the same time as IFRS 16. IFRS 16 sets out the new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognizing right-of-use assets and related financial liabilities. The Corporation is currently assessing the impact of the adoption of this pronouncement on its consolidated financial statements.

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3. INVENTORIES

	September 30, 2017 \$	March 31, 2017 \$
Parts and components	5,605	6,050
Finished goods	2,204	2,284
	7,809	8,334

4. SHARE-BASED COMPENSATION LIABILITY

In June 2016, a restricted share unit plan [“RSU”] and a deferred share unit plan [“DSU”] were adopted by the Board of Directors. The liability resulting from these share unit plans will be measured at fair value of the underlying share price for each unit at the grant date and measured again at the end of each reporting period and at settlement date. Any change in fair value will be recognized in the consolidated statements of net loss and other comprehensive loss.

	2017		2016	
	RSU Share Unit	DSU Share Unit	RSU Share Unit	DSU Share Unit
Balance as at March 31	530,000	560,000	—	—
Issued	—	—	550,000	560,000
Redeemed for cash	60,000	—	—	—
Balance as at September 30	470,000	560,000	550,000	560,000
Units exercisable at end of period	—	560,000	—	420,000

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

For the quarter and the six-month periods ended September 30, 2017, the share-based compensation expense charged to income as employee costs, amounted to \$12 and \$18 [\$328 for the quarter and the six-month periods ended September 30, 2016]. An amount of \$199 was accounted for in accounts payable and accrued liabilities for the current portion and \$69 was accounted for the non-current portion under share-based compensation liability.

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5. LONG-TERM DEBT

	September 30, 2017 \$	March 31, 2017 \$
Loan	4,619	4,459

On September 30, 2017, the effective interest rate of long-term debt was 10.7% [10.7% in 2016] and the Corporation was in compliance with all debt covenants.

During the quarter and the six-month period ended September 30, 2017, the interest expense on long-term debt charged to income amounted to respectively \$123 and \$244, including an amount of \$35 and \$70 related to the accretion of interest [\$119 and \$237 including and amount of \$32 and \$63 accounted for as an accretion expense for the quarter and the nine-month period ended September 30, 2016].

6. EQUITY

6.1 Share Capital

Class A common shares of the Corporation for the three-month periods ended June 30, 2017 and 2016 are summarized in the following table:

	2017		2016	
	#	\$	#	\$
Balance as at March 31	175,950,573	62,762	174,928,906	62,254
Shares issued on exercise of options	—	—	105,000	53
Balance as at September 30	175,950,573	62,762	175,033,906	62,307

Period ended September 30, 2016

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

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6.2 Stock Option Plan

Changes in the Corporation's stock options for the six-month periods ended September 30, 2017 and 2016 are summarized in the following table:

	2017		2016	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance as at March 31	13,895,845	0.37	15,126,845	0.37
Options granted	1,500,755	0.34	300,000	0.62
Options exercised	—	—	(105,000)	0.30
Options cancelled	—	—	(200,000)	0.61
Balance as at September 30	15,396,600	0.37	15,121,845	0.37
Options exercisable at end of period	13,015,845	0.36	13,637,667	0.38

The fair value for options granted during the three-month periods ended September 30, 2017 and 2016 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: weighted average interest rate 1.39% [0.83% in 2016]; no dividend; 69.5% weighted average volatility factor of the expected market price for the Corporation's shares [74% in 2016]; 4.4% weighted average forfeiture rate [3.6% in 2016]; \$0.33 weighted average share price [\$0.63 in 2016] and an expected weighted average option life of 6.4 years [6.4 years in 2016]. 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 \$0.21 per option [\$0.42 per option in 2016], amortized through income (loss) over the vesting periods of the options.

For the quarter and the six-month period ended September 30, 2017, the share-based compensation expense charged to income (loss) amounted to \$80 and \$136 [\$21 and \$62 for the quarter and the six-month period ended September 30, 2016], with a corresponding amount recognized under share-based payments reserve.

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6.3 Warrants

Warrants for the six-month periods ended September 30, 2017 and 2016 are summarized in the following table:

	2017		2016	
	Number	Exercise Price	Number	Exercise Price
	#	\$	#	\$
Expiring on June 18, 2017 (a)	—	—	8,333,333	0.60
Expiring on August 5, 2019	4,500,000	0.50	4,500,000	0.50
Expiring on December 22, 2022	2,000,000	(b)	2,000,000	(b)
Balance	6,500,000		14,833,333	

- (a) On June 18, 2017, 8,333,333 warrants expired. An amount of \$431, representing the initial fair value of the warrants, was credited to deficit and deducted from the warrants reserve.
- (b) Exercise price corresponds to the volume weighted average price of the Class A common shares on the Toronto Stock Exchange for the five trading days prior to the exercise date of the warrants. No warrants were vested as at September 30, 2017.

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

7.1 Cost of Goods Sold Excluding Amortization

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

	Second Quarter		Six Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cost of parts and components	2,710	2,578	5,487	5,346
Employee costs	155	180	404	336
Impairment of parts and components	106	17	129	48
Outsourcing fees	86	108	126	183
Freight charges and import duties	37	64	77	124
Production supplies	30	41	55	65
Warranty fees	26	38	38	53
Share-based payments	2	—	2	—
Other	31	41	76	60
	3,183	3,067	6,394	6,215

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

7.2 Selling and Marketing

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

	Second Quarter		Six Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
Employee costs	1,451	871	2,969	2,205
Professional fees	281	251	557	513
Travel and entertainment expenses	135	158	274	290
Advertising and promotional material	167	184	260	281
Trade show expenses	79	119	228	305
Amortization of property and equipment	38	49	93	93
Share-based payments	37	—	73	14
Office rental	35	31	70	62
Freight charges and import duties	38	75	60	52
Restructuring costs	—	28	17	28
Other	159	163	334	328
	2,420	1,929	4,935	4,171

7.3 Administration

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

	Second Quarter		Six Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
Employee costs	823	513	1,662	1,273
Professional fees	236	173	430	392
Amortization of property and equipment and intangible assets	193	136	371	265
Restructuring costs	—	—	240	—
Costs related to publicly traded company	54	52	118	106
Insurance	68	56	130	109
Directors' compensation	45	350	96	398
Non-deductible commodity taxes	48	53	72	67
Share-based payments	41	21	61	48
Other	40	6	85	27
	1,548	1,360	3,265	2,685

D-BOX Technologies Inc.
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7.4 Research and Development

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

	Second Quarter		Six Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
Employee costs	538	321	1,221	782
Materials and certification	77	26	146	181
Amortization of property and equipment and intangible assets	42	44	83	90
Professional fees	27	55	45	99
Investment tax credits	(97)	(1)	(97)	(12)
Other	92	75	189	148
	679	520	1,587	1,288