

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

June 30, 2014

Notice

The Corporation's independent auditors have not reviewed these 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
(in thousands of Canadian dollars)
As at

	Notes	June 30, 2014 \$	March 31, 2014 \$
ASSETS			
Current assets			
Cash and cash equivalents		4,057	6,717
Accounts receivable		4,072	3,347
Inventories		4,849	4,389
Prepaid expenses and deposits		495	313
		13,473	14,766
Non-current assets			
Property, plant and equipment		7,480	8,146
Intangible assets		1,403	1,128
Other assets		143	164
		22,499	24,204
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		2,245	3,071
Derivative financial instruments		116	42
Warranty provision		14	14
Deferred revenues		225	137
		2,600	3,264
Equity			
Share capital	4.1	57,714	57,714
Share-based payment reserve		4,720	4,605
Accumulated exchange difference		(57)	(106)
Deficit		(42,478)	(41,273)
		19,899	20,940
		22,499	24,204

See accompanying notes of Unaudited Interim Condensed Consolidated Financial Statements.

On behalf of the Board,

Director

Director

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

(in thousands of Canadian dollars, except share and per-share amounts)

Quarters ended June 30

	Notes	2014 \$	2013 \$
Revenues			
Motion systems for:			
Industrial market		1,316	1,403
Entertainment market:			
Commercial theatres:			
System sales		1,878	625
Rights for use, rental and maintenance		1,143	1,260
		3,021	1,885
Home entertainment system sales		223	211
		3,244	2,096
		4,560	3,499
Cost of goods sold excluding amortization	5.1	1,994	1,299
Amortization related to cost of goods sold		456	513
Cost of goods sold		2,450	1,812
Gross profit		2,110	1,687
Other expenses			
Selling and marketing	5.2	1,545	1,361
Administration	5.3	915	855
Research and development	5.4	376	322
Foreign exchange loss (gain)		471	(344)
		3,307	2,194
Loss before financial expenses and income taxes		(1,197)	(507)
Financial expenses (income)			
Financial expenses		18	20
Interest income		(15)	(14)
		3	6
Loss before income taxes		(1,200)	(513)
Income taxes		5	6
Net loss		(1,205)	(519)
<i>Items that will be reclassified to net loss in subsequent periods:</i>			
Foreign currency translation adjustment		(49)	36
Comprehensive loss		(1,156)	(555)
Basic and diluted net loss per share		(0.0074)	(0.0032)
Weighted average number of common shares outstanding		163,781,129	163,781,129

See accompanying notes of Unaudited Interim Condensed Consolidated Financial Statements.

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

(in thousands of Canadian dollars)

Quarter ended June 30

	Notes	Share capital \$	Share-based payment reserve \$	Accumulated exchange difference \$	Deficit \$	Total \$
Balance as at March 31, 2014		57,714	4,605	(106)	(41,273)	20,940
Net loss		—	—	—	(1,205)	(1,205)
Foreign currency translation adjustment		—	—	49	—	49
Comprehensive loss		—	—	49	(1,205)	(1,156)
Share-based payment expense	4.2	—	115	—	—	115
Balance as at June 30, 2014		57,714	4,720	(57)	(42,478)	19,899
Balance as at March 31, 2013		57,714	3,988	(12)	(39,684)	22,006
Net loss		—	—	—	(519)	(519)
Foreign currency translation adjustment		—	—	(36)	—	(36)
Comprehensive loss		—	—	(36)	(519)	(555)
Share-based payment expense	4.2	—	167	—	—	167
Balance as at June 30, 2013		57,714	4,155	(48)	(40,203)	21,618

See accompanying notes of Unaudited Interim Condensed Consolidated Financial Statements.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)
Quarters ended June 30

	Notes	2014 \$	2013 \$
OPERATING ACTIVITIES			
Net loss		(1,205)	(519)
Items not affecting cash			
Amortization of property, plant and equipment		515	588
Amortization of intangible assets		76	70
Amortization of other assets		21	23
Write-off of property, plant and equipment		54	16
Gain on disposal of property, plant and equipment		(36)	—
Share-based payment expense	4.2	115	167
Unrealized foreign exchange loss		359	401
Cash flows from operations before changes in working capital items		(101)	746
Changes in working capital items:			
Accounts receivable		(1,104)	(665)
Inventories		(372)	(9)
Prepaid expenses and deposits		(182)	(32)
Goods held for lease		(111)	(118)
Other assets		—	(1)
Accounts payable and accrued liabilities		(503)	(1,059)
Foreign exchange contract		74	—
Deferred revenues		88	138
		(2,110)	(1,746)
Cash flows relating to operating activities		(2,211)	(1,000)
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(101)	(71)
Disposal of property, plant and equipment		39	—
Additions to intangible assets		(351)	(48)
Cash flows relating to investing activities		(413)	(119)
Effect of exchange rate fluctuations on cash and cash equivalents		(36)	(12)
Net change in cash and cash equivalents		(2,660)	(1,131)
Cash and cash equivalents, beginning of period		6,717	5,708
Cash and cash equivalents, end of period		4,057	4,577
Cash and cash equivalents consist of:			
Cash		2,569	1,490
Cash equivalents		1,488	3,087

See accompanying notes of Unaudited Interim Condensed Consolidated Financial Statements.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
June 30, 2014

(Amounts are in thousands of Canadian dollars, except share, option, 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 markets leading-edge technology motion systems for the entertainment and industrial markets. With its unique, patented technology, D-BOX uses motion effects specifically programmed for visual content, which are sent to a motion generating system integrated within a platform, seat or other product. The resulting motion is perfectly synchronized with all onscreen action, creating an unmatched realistic and immersive experience.

Based on the nature of the Corporation's clients, two significant markets have been identified: the entertainment and industrial markets. The entertainment market comprises motion systems installed in commercial theatres and home entertainment consumer products, particularly video games and home theatres. The industrial 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 13, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("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 2014 annual consolidated financial statements which include the same accounting policies used in the preparation of these financial statements.

2.2 New Accounting Pronouncements

These new standards were adopted by the corporation on April 1st, 2014 and did not have an impact on the Interim Condensed Consolidated Financial Statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
[Cont'd]

2.2 *New Accounting Pronouncements [Cont'd]*

- **Amendments to IAS 32, *Financial Instruments: Presentation***
In December 2011, amendments to IAS 32, *Financial Instruments: Presentation*, were issued to clarify the application of offsetting criteria with respect to offsetting financial assets and financial liabilities.
- **Amendments to IAS 36, *Impairment of Assets***
IAS 36, *Impairment of Assets*, was revised to integrate the amendments issued in May 2013. These amendments make it possible to better reflect a prior decision to report the recoverable amount of impaired assets along with other disclosures regarding the value of the recoverable amount of impaired assets in cases where said recoverable amount is based on fair value less costs of disposal, including the discount rate, when a discounting technique is used to determine the recoverable amount.
- **Annual Improvements – 2010-2012 and 2011-2013 Cycles**
In December 2013, the *Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles* were issued and contained a number of amendments to various IFRS, such as IFRS 3, *Business Combinations*, IFRS 13, *Fair Value Measurement*, IAS 16, *Property, Plant and Equipment*, IAS 24, *Related Parties*, and IAS 38, *Intangible Assets*.

3. INVENTORIES

Inventories as at June 30, 2014 and March 31, 2014 are detailed as follows:

	June 30, 2014	March 31, 2014
	\$	\$
Parts and components	2,959	2,659
Finished goods	1,890	1,730
	4,849	4,389

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4. EQUITY

4.1 *Share Capital*

Class A common shares of the Corporation for the period ended June 30, 2014 and the fiscal year ended March 31, 2014 are summarized in the following table:

	June 30, 2014		March 31, 2014	
	Number	\$	Number	\$
Balance	163,781,129	57,714	163,781,129	57,714

There were no changes to the Class A common shares of the Corporation during the period ended June 30, 2014 and the fiscal year ended March 31, 2014.

4.2 *Stock Option Plan*

Changes in the Corporation's stock options for the quarter ended June 30 are summarized in the following table:

	2014		2013	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
Balance as at March 31	14,453,345	0.38	12,381,811	0.44
Options granted	425,000	0.26	2,425,000	0.19
Options cancelled	(150,000)	0.44	(6,000)	0.33
Options expired	(150,000)	0.39	(825,500)	0.45
Balance as at June 30	14,578,345	0.37	13,975,311	0.39
Options exercisable at end of period	8,986,478	0.47	8,766,004	0.43

The fair value for options granted during the three-month period ended June 30 2014 and 2013 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 1.78% weighted average risk-free interest rate (1.31% in 2013); no dividend issued in 2014 and 2013; 87% weighted average volatility factor of the expected market price for the Corporation's shares (95% in 2013);

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4. EQUITY[Cont'd]

4.2 Stock Option Plan [Cont'd]

3.73% weighted average cancellation rate (3.83% in 2013); \$0.26 weighted average share price (\$0.18 in 2013) and an expected weighted average option life of 5.8 years (5.6 years in 2013). 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 \$0.20 per option [\$0.14 per option in 2013], amortized through income over the vesting periods of the options.

For the period ended June 30, 2014, the share-based compensation expense charged to income amounted to \$115 [\$167 for the period ended June 30, 2013] with a corresponding amount recognized under share-based payment reserve.

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

5.1 Cost of Goods Sold Excluding Amortization

The key components of costs of goods sold excluding amortization of property, plant and equipment are detailed as follows for the quarters ended June 30:

	2014	2013
Cost of parts and components	1,660	1,046
Employee costs	233	185
Freight charges and import duties	72	26
Production supplies	17	20
Other	12	22
	1,994	1,299

D-BOX Technologies Inc.
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5. SUPPLEMENTARY INFORMATION FOR THE
UNAUDITED INTERIM CONSOLIDATED STATEMENTS
OF NET LOSS AND OTHER COMPREHENSIVE LOSS
[Cont'd]

5.2 *Selling and Marketing*

The key components of selling and marketing expenses are detailed as follows for the quarters ended June 30:

	2014	2013
Employee costs	960	789
Professional fees	107	114
Publicity and material	49	25
Share-based payment expense	32	57
Trade show expenses	71	161
Travel and entertainment expenses	82	62
Amortization of property, plant and equipment	49	70
Freight charges and import duties	75	15
Write-off of property, plant and equipment	42	—
Other	78	68
	1,545	1,361

5.3 *Administrative Expenses*

The key components of administrative expenses are detailed as follows for the quarters ended June 30:

	2014	2013
Employee costs	511	456
Share-based payment expense	74	93
Professional fees	80	85
Public company costs	65	47
Insurance	45	58
Amortization of property, plant and equipment and intangible assets	64	52
Director fees	28	34
Other	48	30
	915	855

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5. SUPPLEMENTARY INFORMATION ON THE
UNAUDITED INTERIM CONSOLIDATED STATEMENTS
OF NET LOSS AND OTHER COMPREHENSIVE LOSS
[Cont'd]

5.4 *Research and Development*

The key components of research and development expenses are detailed as follows for the quarters ended June 30:

	2014	2013
Employee costs	313	262
Amortization of property, plant, equipment and intangible assets	43	46
Share-based payment expense	3	16
Investment tax credits	(45)	(43)
Materials and certification	29	16
Other	33	25
	376	322