

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

December 31, 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	December 31, 2014 \$	March 31, 2014 \$
ASSETS			
Current assets			
Cash and cash equivalents		4,512	6,717
Accounts receivable		3,647	3,347
Inventories	3	4,615	4,389
Prepaid expenses and deposits		378	313
		13,152	14,766
Non-current assets			
Property, plant and equipment		7,204	8,146
Intangible assets		1,637	1,128
Other assets		145	164
		22,138	24,204
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		2,180	3,071
Derivative financial instruments		44	42
Warranty provision		14	14
Deferred revenues		55	137
		2,293	3,264
Equity			
Share capital	4.1	57,715	57,714
Share-based payment reserve		4,930	4,605
Accumulated exchange difference		(199)	(106)
Deficit		(42,601)	(41,273)
		19,845	20,940
		22,138	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 and nine-month periods ended December 31

	Notes	Third Quarter		Nine Months	
		2014 \$	2013 \$	2014 \$	2013 \$
Revenues					
Motion systems for:					
Industrial market		1,544	1,857	3,858	5,224
Entertainment market:					
Commercial theatres:					
System sales		2,150	1,499	5,908	4,013
Rights for use, rental and maintenance		991	1,081	3,372	2,839
		3,141	2,580	9,280	6,852
Home entertainment system sales		309	182	770	537
		3,450	2,762	10,050	7,389
		4,994	4,619	13,908	12,613
Cost of goods sold excluding amortization	5.1	2,371	2,045	6,349	5,632
Amortization related to cost of goods sold		481	442	1,350	1,323
Cost of goods sold		2,852	2,487	7,699	6,955
Gross profit		2,142	2,132	6,209	5,658
Other expenses					
Selling and marketing	5.2	1,475	1,479	4,231	4,192
Administration	5.3	789	810	2,402	2,288
Research and development	5.4	478	340	1,266	972
Foreign exchange gain		(295)	(150)	(388)	(276)
		2,447	2,479	7,511	7,176
Loss before financial expenses and income taxes		(305)	(347)	(1,302)	(1,518)
Financial expenses (income)					
Financial expenses		20	19	53	60
Interest income		(6)	(18)	(28)	(42)
		14	1	25	18
Loss before income taxes		(319)	(348)	(1,327)	(1,536)
Income taxes		(4)	4	1	10
Net Loss		(315)	(352)	(1,328)	(1,546)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation adjustment		68	32	93	51
Comprehensive loss		(383)	(384)	(1,421)	(1,597)
Basic and diluted net loss per share		(0.0019)	(0.0021)	(0.0081)	(0.0094)
Weighted average number of common shares outstanding		163,784,462	163,781,129	163,783,092	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)

Nine-month period ended December 31, 2014 and 2013

	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		—	—	—	(1,328)	(1,328)
Foreign currency translation adjustment		—	—	(93)	—	(93)
Comprehensive loss		—	—	(93)	(1,328)	(1,421)
Shares issued	4.1	1	—	—	—	1
Share-based payment expense	4.2	—	325	—	—	325
Balance as at December 31, 2014		57,715	4,930	(199)	(42,601)	19,845
Balance as at March 31, 2013		57,714	3,988	(12)	(39,684)	22,006
Net loss		—	—	—	(1,546)	(1,546)
Foreign currency translation adjustment		—	—	(51)	—	(51)
Comprehensive loss		—	—	(51)	(1,546)	(1,597)
Share-based payment expense	4.2	—	434	—	—	434
Balance as at December 31, 2013		57,714	4,422	(63)	(41,230)	20,843

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)
Nine-month periods ended December 31

	Notes	2014 \$	2013 \$
OPERATING ACTIVITIES			
Net loss		(1,328)	(1,546)
Items not affecting cash			
Amortization of property, plant and equipment		1,533	1,529
Amortization of intangible assets		318	215
Amortization of other assets		59	68
Write-off of property, plant and equipment		82	123
Gain on disposal of property, plant and equipment		(36)	—
Share-based payment expense	4.2	325	434
Unrealized foreign exchange gain		(493)	(406)
Cash flows from operations before changes in working capital items		460	417
Changes in working capital items:			
Accounts receivable		289	1,139
Inventories		137	1,767
Prepaid expenses and deposits		(65)	4
Goods held for lease		(405)	(497)
Other assets		(40)	(78)
Accounts payable and accrued liabilities		(1,356)	(341)
Foreign exchange contract		2	—
Deferred revenues		(82)	109
		(1,520)	2,103
Cash flows relating to operating activities		(1,060)	2,520
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(379)	(250)
Disposal of property, plant and equipment		39	—
Additions to intangible assets		(827)	(384)
Cash flows relating to investing activities		(1,167)	(634)
FINANCING ACTIVITIES			
Shares issued	4.1	1	—
Cash flows relating to financing activities		1	—
Effect of exchange rate fluctuations on cash and cash equivalents		21	32
Net change in cash and cash equivalents		(2,205)	1,918
Cash and cash equivalents, beginning of period		6,717	5,708
Cash and cash equivalents, end of period		4,512	7,626
Cash and cash equivalents consist of:			
Cash		3,112	1,267
Cash equivalents		1,400	6,359

See accompanying notes of Unaudited Interim Condensed Consolidated Financial Statements.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 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 unparalleled 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 February 11, 2015.

2. 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.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2014

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

3. INVENTORIES

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

	December 31, 2014	March 31, 2014
	\$	\$
Parts and components	3,148	2,659
Finished goods	1,467	1,730
	4,615	4,389

4. EQUITY

4.1 *Share Capital*

Class A common shares of the Corporation for the nine-month periods ended December 31, 2014 and 2013 are summarized in the following table:

	2014		2013	
	#	\$	#	\$
Balance as at March 31	163,781,129	57,714	163,781,129	57,714
Shares issued on exercise of options	3,333	1	—	—
Balance as at December 31	163,784,462	57,715	163,781,129	57,714

During the quarter ended December 31, 2014, there was no share capital variation. During the nine-month period ended December 31, 2014, the Corporation issued 3,333 Class A common shares for a total of \$1 in cash on exercise of stock options. An amount of \$0.4, representing the initial fair value of the stock options, was credited to share capital and deducted from the share-based payment reserve.

D-BOX Technologies Inc.
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4. EQUITY [Cont'd]

4.2 Stock Option Plan

Changes in the Corporation's stock options for the nine-month periods ended December 31, 2014 and 2013 are summarized in the following table:

	2014		2013	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance as at March 31	14,453,345	0.38	12,381,811	0.44
Options granted	785,000	0.27	5,252,534	0.20
Options exercised	(3,333)	0.19	—	—
Options cancelled	(245,667)	0.40	(2,051,000)	0.27
Options expired	(150,000)	0.39	(1,145,500)	0.41
Balance as at December 31	14,839,345	0.37	14,437,845	0.38
Options exercisable at end of period	9,977,658	0.44	6,869,640	0.48

The fair value for options granted during the nine-month period ended December 31, 2014 and 2013 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 1.69% weighted average risk-free interest rate (1.65% in 2013); no dividend issued in 2014 and 2013; 86% weighted average volatility factor of the expected market price for the Corporation's shares (92% in 2013); 3.7% weighted average cancellation rate (3.89% in 2013); \$0.27 weighted average share price (\$0.20 in 2013) and an expected weighted average option life of 5.9 years (5.7 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 nine-month period ended December 31, 2014 is \$0.27 per option [\$0.13 per option in 2013], amortized through income over the vesting periods of the options.

For the quarter and the nine-month period ended December 31, 2014, the share-based compensation expense charged to income amounted to \$105 and \$325 [\$143 and \$434 for the quarter and the nine-month period ended December 31, 2013] with a corresponding amount recognized under share-based payment reserve.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2014

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

5. SUPPLEMENTARY INFORMATION ON THE UNAUDITED
INTERIM CONSOLIDATED STATEMENTS OF NET LOSS
AND OTHER COMPREHENSIVE INCOME 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 and the periods ended December 31:

	Third Quarter		Nine Months	
	2014	2013	2014	2013
	\$	\$	\$	\$
Cost of parts and components	2,010	1,808	5,237	4,842
Employee costs	277	159	682	486
Freight charges and import duties	23	54	122	99
Production supplies	17	26	51	65
Parts and components write-offs	—	—	113	80
Other	44	(2)	144	60
	2,371	2,045	6,349	5,632

5.2 Selling and Marketing

The key components of selling and marketing expenses are detailed as follows for the quarters and the periods ended December 31:

	Third Quarter		Nine Months	
	2014	2014	2014	2013
	\$	\$	\$	\$
Employee costs	893	735	2,589	2,294
Trade show expenses	140	152	356	361
Professional fees	137	173	348	445
Amortization of property, plant and equipment	49	61	146	192
Freight charges and import duties	47	50	145	108
Travel and entertainment expenses	39	38	138	138
Publicity and material	32	84	89	131
Share-based payment expense	26	48	79	151
Write-off of property, plant and equipment	9	61	69	124
Other	103	77	272	248
	1,475	1,479	4,231	4,192

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
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(Amounts are in thousands of Canadian dollars, except share, option, per-share and per-option amounts)

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

5.3 Administrative Expenses

The key components of administrative expenses are detailed as follows for the quarters and the periods ended December 31:

	Third Quarter		Nine Months	
	2014	2013	2014	2013
	\$	\$	\$	\$
Employee costs	405	409	1,323	1,145
Professional fees	92	90	241	240
Share-based payment expense	70	81	214	235
Amortization of property, plant and equipment and of intangible assets	69	58	198	166
Insurance	38	62	123	182
Director fees	30	21	72	76
Public company costs	26	23	108	138
Other	59	66	123	106
	789	810	2,402	2,288

5.4 Research and Development

The key components of research and development expenses are detailed as follows for the quarters and the periods ended December 31:

	Third Quarter		Nine Months	
	2014	2013	2014	2013
	\$	\$	\$	\$
Employee costs	290	240	902	678
Amortization of property, plant, equipment and intangible assets	85	41	216	131
Materials and certification	57	99	114	173
Share-based payment expense	6	5	19	35
Investment tax credits	(9)	(81)	(101)	(164)
Other	49	36	116	119
	478	340	1,266	972