

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

June 30, 2019

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]

		June 30, 2019	March 31, 2019
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		8,242	9,635
Accounts receivable		4,996	6,462
Derivative financial instruments		168	—
Inventories	3	7,816	7,526
Prepaid expenses and deposits		625	906
		21,847	24,529
Non-current assets			
Property and equipment		6,429	6,002
Intangible assets		3,134	3,165
Other assets		50	68
		31,460	33,764
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		5,288	6,608
Derivative financial instruments		—	126
Warranty provision		162	162
Deferred revenues		367	654
Current portion of lease liabilities		66	—
Current portion of long-term debt	5	4,897	4,853
		10,780	12,403
Non-current liabilities			
Employee benefits		—	838
Lease liabilities	2.1	632	—
		11,412	13,241
Equity			
Share capital	6.1	62,762	62,762
Share-based payments reserve	6.2	5,579	5,534
Warrants reserve	6.3	528	528
Foreign currency translation reserve		(350)	(436)
Deficit		(48,471)	(47,865)
		20,048	20,523
		31,460	33,764

Subsequent event (note 8)

See accompanying notes.

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

First quarters ended June 30

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

	Notes	2019 \$	2018 \$
Revenues			
Motion systems for:			
Entertainment market:			
Theatrical entertainment:			
System sales		1,741	2,197
Rights for use, rental and maintenance		2,434	2,605
		4,175	4,802
Commercial entertainment system sales		995	2,512
Home entertainment system sales		147	253
		5,317	7,567
Simulation and training market		2,216	1,945
		7,533	9,512
Cost of goods sold excluding amortization	7.1	2,827	3,622
Amortization related to cost of goods sold		453	507
Cost of goods sold		3,280	4,129
Gross profit		4,253	5,383
Other expenses			
Selling and marketing	7.2	2,532	2,664
Administration	7.3	1,426	1,627
Research and development	7.4	801	764
Foreign exchange loss		14	395
		4,773	5,450
Loss before financial expenses and income taxes		(520)	(67)
Financial expenses (income)			
Financial expenses		128	149
Interest income		(35)	(15)
		93	134
Loss before income taxes		(613)	(201)
Income taxes (recovery)		(7)	28
Net loss		(606)	(229)
<i>Items that will be reclassified to net loss in subsequent periods:</i>			
Foreign currency translation gain		86	27
Comprehensive loss		(520)	(202)
Basic and diluted net loss per share		(0.003)	(0.001)
Weighted average number of common shares outstanding		175,950,573	175,950,573

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, 2019		62,762	5,534	528	(436)	(47,865)	20,523
Net loss		—	—	—	—	(606)	(606)
Foreign currency translation gain		—	—	—	86	—	86
Comprehensive loss		—	—	—	86	(606)	(520)
Share-based payments	6.2	—	45	—	—	—	45
Balance as at June 30, 2019		62,762	5,579	528	(350)	(48,471)	20,048
Balance as at March 31, 2018		62,762	5,377	528	(410)	(46,160)	22,097
Net loss		—	—	—	—	(229)	(229)
Foreign currency translation gain		—	—	—	27	—	27
Comprehensive loss		—	—	—	27	(229)	(202)
Share-based payments	6.2	—	55	—	—	—	55
Balance as at June 30, 2018		62,762	5,432	528	(383)	(46,389)	21,950

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	2019 \$	2018 \$
OPERATING ACTIVITIES			
Net loss		(606)	(229)
Items not affecting cash			
Amortization of property and equipment		417	572
Amortization of intangible assets		258	201
Amortization of other assets		1	1
Share-based payments	6.2	45	55
Unrealized foreign exchange loss (gain)		(80)	64
Share-based compensation liability		—	9
Employee benefit liability		120	115
Accretion of interest expense		44	38
Cash flows from operations before changes in working capital items		199	826
Changes in working capital items:			
Accounts receivable		1,584	(1,903)
Inventories		(290)	(64)
Prepaid expenses and deposits		281	(5)
Goods held for lease		(75)	(58)
Other assets		17	2
Accounts payable and accrued liabilities		(2,200)	(2,242)
Derivative financial instruments		(294)	395
Deferred revenues		(287)	434
		(1,264)	(3,441)
Cash flows relating to operating activities		(1,065)	(2,615)
INVESTING ACTIVITIES			
Additions to property and equipment		(48)	(20)
Disposal of property and equipment		18	2
Additions to intangible assets		(201)	(176)
Cash flows relating to investing activities		(231)	(194)
FINANCING ACTIVITIES			
Payment of lease liabilities		(64)	—
Cash flows relating to financing activities		(64)	—
Effect of exchange rate fluctuations on cash and cash equivalents		(33)	77
Net change in cash and cash equivalents		(1,393)	(2,732)
Cash and cash equivalents, beginning of period		9,635	10,141
Cash and cash equivalents, end of period		8,242	7,409
Cash and cash equivalents consist of:			
Cash		1,063	1,641
Cash equivalents		7,179	5,768
Interest and income taxes included in operating activities:			
Interest paid		87	87
Income taxes paid		7	28

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
June 30, 2019

[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 located at 2172 de la Province Street, Longueuil, Québec, Canada.

D-BOX designs, manufactures and commercializes cutting-edge motion systems intended for the entertainment and 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 and/or 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 August 7, 2019.

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. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the March 31, 2019 annual consolidated financial statements which include the same accounting policies used in the preparation of these financial statements, except for the adoption of the new accounting standard discussed in note 2.1.

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2.1 New Accounting Standard

- ***IFRS 16, Leases***

Effective April 1, 2019, the Corporation adopted *IFRS 16, Leases*, which replaces IAS 17, *Leases* and its related interpretations. Under this new standard, most leases of the Corporation are now recognized in the consolidated balance sheets. The Corporation adopted IFRS 16 using the modified retrospective method with the date of initial application of April 1, 2019. Under this method, the standard is applied retrospectively and the comparatives figures are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any.

The following describes the Corporation's accounting policy under IFRS 16:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right-of-use asset and a lease liability are recognized at the lease commencement date.

Right-of-Use Asset

- The right-of-use asset is measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs if any to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.
- The cost of right-of-use asset is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from two to three years for buildings.
- The Corporation elected not to recognize right-of-use asset and liability for leases of less than 12 months of for assets of a value of less than \$5,000.

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Lease Liabilities

- At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments if any that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payments of penalties for terminating a lease, if the lease term reflects the Corporation exercising the option to terminate.
- In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Impact on transition to IFRS 16:

Total right-of-use assets and lease liabilities of \$760 were recorded as at April 1, 2019, with no impact on the deficit as at April 1, 2019.

Instead of recognizing monthly rent expenses, the Corporation started to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets as of April 1, 2019.

The weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated balance sheets at the date of initial application was 6.20%.

The following table presents the reconciliation of the operating lease commitments as at March 31, 2019 to the lease liabilities as at April 1, 2019:

	\$
Operating lease commitments as at March 31, 2019	957
Discounted operating lease commitments as at April 1, 2019	(95)
Commitments relating to short-term and low-value assets	(102)
Lease liabilities as at April 1, 2019	760

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3. INVENTORIES

	June 30, 2019 \$	March 31, 2019 \$
Parts and components	6,587	5,896
Finished goods	1,229	1,630
	7,816	7,526

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 the settlement date. Any change in fair value will be recognized in the consolidated statements of net loss and comprehensive loss.

	2019		2018	
	RSU Share Units	DSU Share Units	RSU Share Units	DSU Share Units
Balance as at March 31	470,000	240,000	470,000	400,000
Issued	—	—	—	—
Redeemed for cash	—	—	—	—
Balance as at June 30	470,000	240,000	470,000	400,000
Units exercisable at end of period	—	240,000	—	400,000

The RSU share units will vest three years after the grant date and will be redeemed for cash or shares at the vesting date or under certain conditions. The DSU share units will be redeemed for cash or shares upon termination of the participant's service for all vested units.

For the three-month period ended June 30, 2019, the share-based payment expense credited to income amounted to (\$3) [\$9 in 2018]. An amount of \$97 was accounted for in accounts payable and accrued liabilities for the current portion [\$100 as at March 31, 2019].

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5. LONG-TERM DEBT

	June 30, 2019 \$	March 31, 2019 \$
Loan	4,897	4,853

On June 30, 2019, the effective interest rate of long-term debt was 10.7% [10.7% in 2018] and the Corporation was in compliance with all debt covenants.

During the quarter ended June 30, 2019, the interest expense on long-term debt charged to loss amounted to \$130 [\$126 in 2018], including an amount of \$44 [\$38 in 2018] related to accretion of interest expense.

6. EQUITY

6.1 Share Capital

Class A common shares of the Corporation for the three-month periods ended June 30, 2019 and 2018 are summarized in the following table:

	2019		2018	
	#	\$	#	\$
Balance as at March 31	175,950,573	62,762	175,950,573	62,762
Shares issued on exercise of options	—	—	—	—
Balance as at June 30	175,950,573	62,762	175,950,573	62,762

6.2 Share-based payments

Changes in the Corporation's stock options for the three-month periods ended June 30, 2019 and 2018 are summarized in the following table:

	2019		2018	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Balance as at March 31	15,807,100	0.35	15,049,934	0.37
Options granted	—	—	100,000	0.24
Options cancelled	(46,667)	0.39	(73,667)	0.52
Balance as at June 30	15,760,433	0.35	15,076,267	0.37
Options exercisable at end of period	13,489,732	0.37	13,445,761	0.37

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The fair value for options granted during the three-month periods ended June 30, 2018 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 2.02% weighted average risk-free interest rate; no dividend; 67% weighted average volatility factor of the expected market price for the Corporation's shares; 5.53% weighted average forfeiture rate; \$0.24 weighted average share price and an expected weighted average option life of 6.6 years. 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 ended June 30, 2018 is \$0.15 per option, amortized through income (loss) over the vesting periods of the options.

For the quarter ended June 30, 2019, the share-based payment expense charged to loss amounted to \$45 [\$55 for the quarter ended June 30, 2018] with a corresponding amount recognized under share-based payment reserve.

6.3 Warrants

Warrants for the three-month periods ended June 30, 2019 and 2018 are summarized as follows:

	2019		2018	
	Number	Exercise	Number	Exercise
	#	Price	#	Price
		\$		\$
Expiring on August 5, 2019	4,500,000	0.50	4,500,000	0.50
Expiring on December 22, 2022	2,000,000	(a)	2,000,000	(a)
Balance	6,500,000		6,500,000	

- (a) The exercise price represents 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.

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**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 cost of goods sold excluding amortization are detailed as follows for the three-month periods ended June 30:

	2019	2018
	\$	\$
Cost of parts and components	2,278	3,056
Employee costs	347	335
Professional fees	20	26
Other	182	205
	2,827	3,622

7.2 *Selling and Marketing*

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

	2019	2018
	\$	\$
Employee costs	1,541	1,567
Professional fees	169	248
Advertising, travel and trade show	374	384
Amortization of property and equipment	21	36
Other	427	429
	2,532	2,664

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7.3 Administration

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

	2019	2018
	\$	\$
Employee costs	738	951
Professional fees	235	246
Amortization of property and equipment and intangible assets	159	190
Other	294	240
	1,426	1,627

7.4 Research and Development

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

	2019	2018
	\$	\$
Employee costs	617	570
Professional fees	10	—
Amortization of property and equipment and intangible assets	43	41
Tax credits	(108)	(42)
Other	239	195
	801	764

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8. SUBSEQUENT EVENT

On July 31, 2019, the Corporation signed a three-year secured revolving credit facility of \$5.0 million with the National Bank of Canada. This new credit facility matures in three years and bears interest, payable monthly, at an annual rate equal to the National Bank of Canada's floating interest rate applicable to commercial loans in Canadian dollars plus 2.25%. The credit facility is secured by both hypothec and security interests on all assets (other than intellectual property) of the Corporation and its wholly-owned US subsidiary. The amount of the credit facility will gradually reduce over the term of the facility at the end of each quarter, such that the amount of the credit facility at the end of each year will be as follows: \$4.5 million at the end of year one, \$3.8 million at the end of year two, and \$3.0 million at the end of year three.

An amount of \$4.0 million was drawn from the credit facility at closing to reimburse, together with cash available, the \$5.0 million loan (plus accrued interest) which was maturing on February 5, 2020.