

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

June 30, 2020

Notice

The Corporation's independent auditor has 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, 2020 \$	March 31, 2020 \$
ASSETS			
Current assets			
Cash and cash equivalents		4,552	4,116
Accounts receivable		4,430	6,474
Inventories	3	6,250	6,531
Prepaid expenses and deposits		509	490
Current portion of finance leases receivable		29	—
		15,770	17,611
Non-current assets			
Property and equipment		5,139	5,589
Intangible assets		2,479	2,581
Finance leases receivable		416	461
Other assets		627	629
		24,431	26,871
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		4,140	4,730
Derivative financial instruments		283	846
Warranty provision		113	114
Deferred revenues		972	953
Current portion of lease liabilities		312	273
Current portion of long-term debt	5	4,000	4,000
		9,820	10,916
Non-current liabilities			
Lease liabilities		940	1,056
Employee benefits		71	549
		10,831	12,521
Equity			
Share capital	6.1	62,762	62,762
Share-based payments reserve	6.2	2,126	2,149
Foreign currency translation reserve		(344)	(514)
Deficit		(50,944)	(50,047)
		13,600	14,350
		24,431	26,871

Subsequent events [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	2020 \$	2019 \$
Revenues			
Entertainment market:			
Commercial theatrical:			
Motion system sales		266	1,741
Rights for use, rental and maintenance		98	2,434
		364	4,175
Commercial entertainment system sales		182	995
Home entertainment system sales		190	147
		736	5,317
Simulation and training market			
Motion system sales		1,494	2,216
		2,230	7,533
Cost of goods sold excluding amortization	7.1	879	2,827
Amortization related to cost of goods sold		444	453
Cost of goods sold		1,323	3,280
Gross profit		907	4,253
Other expenses			
Selling and marketing	7.2	584	2,532
Administration	7.3	861	1,426
Research and development	7.4	269	801
Foreign exchange loss		66	14
		1,780	4,773
Loss before financial expenses and income taxes		(873)	(520)
Financial expenses (income)			
Financial expenses		99	128
Interest income		(5)	(35)
		94	93
Loss before income taxes		(967)	(613)
Income taxes (recovery)		(1)	(7)
Net loss		(966)	(606)
<i>Items that will be reclassified to net loss in subsequent periods:</i>			
Foreign currency translation gain		170	86
Comprehensive loss		(796)	(520)
Basic and diluted net loss per share		(0.005)	(0.003)
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, 2020		62,762	2,149	—	(514)	(50,047)	14,350
Net loss		—	—	—	—	(966)	(966)
Foreign currency translation gain		—	—	—	170	—	170
Comprehensive loss		—	—	—	170	(966)	(796)
Share-based payments	6.2	—	46	—	—	—	46
Cancellation and expiration of stock options	6.2	—	(69)	—	—	69	—
Balance as at June 30, 2020		62,762	2,126	—	(344)	(50,944)	13,600
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

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	2020 \$	2019 \$
OPERATING ACTIVITIES			
Net loss		(966)	(606)
Items not affecting cash			
Amortization of property and equipment		475	417
Amortization of intangible assets		191	258
Amortization of other assets		—	1
Share-based payments	6.2	46	45
Unrealized foreign exchange loss (gain)		151	(80)
Employee benefit liability		—	120
Accretion of interest expense	5	—	44
Cash flows provided by (used in) operations before changes in working capital items		(103)	199
Changes in working capital items:			
Accounts receivable		2,010	1,584
Inventories		281	(290)
Prepaid expenses and deposits		(20)	281
Goods held for lease		—	(75)
Finance leases receivable		16	—
Other assets		—	17
Accounts payable and accrued liabilities		(794)	(2,200)
Derivative financial instruments		(563)	(294)
Deferred revenues		19	(287)
Employee benefits		(288)	—
Cash flows provided by (used in) operating activities		558	(1,065)
INVESTING ACTIVITIES			
Additions to property and equipment		—	(48)
Disposal of property and equipment		—	18
Additions to intangible assets		(63)	(201)
Cash flows used in investing activities		(63)	(231)
FINANCING ACTIVITIES			
Payment of lease liabilities		(74)	(64)
Cash flows used in financing activities		(74)	(64)
Effect of exchange rate fluctuations on cash and cash equivalents		15	(33)
Net change in cash and cash equivalents		436	(1,393)
Cash and cash equivalents, beginning of period		4,116	9,635
Cash and cash equivalents, end of period		4,552	8,242
Cash and cash equivalents consist of:			
Cash		704	1,063
Cash equivalents		3,848	7,179
Interest and income taxes included in operating activities:			
Interest paid		48	87
Income taxes paid		—	7

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
June 30, 2020

[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 haptic 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 based on 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, commercial entertainment motion systems and home entertainment consumer products [particularly video games and home theatres]. The simulation and training market consist 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 12, 2020.

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, 2020 annual consolidated financial statements which include the same accounting policies used in the preparation of these financial statements.

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3. INVENTORIES

	June 30, 2020	March 31, 2020
	\$	\$
Parts and components	5,245	5 303
Finished goods	1,005	1 228
	6,250	6 531

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 is 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 is recognized in the consolidated statements of net loss and comprehensive loss.

	2020		2019	
	RSU Share Units	DSU Share Units	RSU Share Units	DSU Share Units
Balance as at June 30	—	80,000	470,000	240,000
Units exercisable at end of period	—	80,000	—	240,000

RSU share units vested three years after the grant date and were redeemed for cash at the vesting date. DSU share units vest 12 months after the grant date and are redeemed for cash or shares upon cessation of participants service for all vested units.

5. LONG-TERM DEBT

	June 30, 2020	March 31, 2020
	\$	\$
Loan	4,000	4,897

As at June 30, 2020, the effective interest rate of long-term debt was 6.2% [10.7% as at June 30, 2019]. On July 31, 2019, the Corporation signed a three-year secured revolving credit facility of \$5,000 with the National Bank of Canada [“NBC”]. This new credit facility matures in three years and bears interest,

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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 of the Corporation and its wholly-owned US subsidiary. The amount of the credit facility will gradually decrease 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: \$4,500 at the end of year one, \$3,800 at the end of year two, and \$3,000 at the end of year three.

An amount of \$4,000 was drawn from the credit facility at closing to repay, together with cash available, the previous \$5,000 loan [plus accrued interest] which was to mature on February 5, 2020.

Subsequent to quarter-end the Corporation replaced the current credit facility [see note 8 subsequent events] and received a waiver to be in compliance with all debt covenants as at June 30, 2020. Considering the current default of the Corporation's financial ratio conditions at quarter-end, the entire long-term debt was presented in current liabilities.

For the quarter ended June 30, 2020, the interest expense on long-term debt charged to loss amounted to \$48 [\$130 including an amount of \$44 accounted for as an accretion expense for the quarter ended June 30, 2019].

6. EQUITY

6.1 *Share capital*

Class A common shares of the Corporation for the three-month periods ended June 30, 2020 and 2019 are summarized in the following table:

	2020		2019	
	#	\$	#	\$
Balance as at March 31 and June 30	175,950,573	62,762	175,950,573	62,762

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6.2 Share-based payments

Changes in the Corporation's stock options for the three-month periods ended June 30, 2020 and 2019 are summarized in the following table:

	2020		2019	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Balance as at March 31	14,448,289	0.24	15,807,100	0.35
Options cancelled and expired	(370,000)	0.28	(46,667)	0.39
Balance as at June 30	14,078,289	0.24	15,760,433	0.35
Options exercisable at end of period	9,228,622	0.30	13,489,732	0.37

For the quarter ended June 30, 2020, the share-based payment expense charged to loss amounted to \$46 [\$45 for the quarter ended June 30, 2019] with a corresponding amount recognized under share-based payments reserve. For the quarter ended June 30, the cancellation and expiry of options resulted in reclassification of \$69 [Nil in 2019] from the share-based payments reserve to the deficit.

6.3 Warrants

Warrants for the three-month periods ended June 30, 2020 and 2019 are summarized as follows:

	2020		2019	
	Number #	Exercise Price \$	Number #	Exercise Price \$
Cancelled on July 31, 2019 ^(a)	—	—	4,500,000	0.50
Expiring on December 22, 2022	2,000,000	^(b)	2,000,000	^(b)
Balance as at June 30	2,000,000		6,500,000	

(a) On July 31, 2019, 4,500,000 warrants were cancelled. An amount of \$528, representing the initial fair value of the warrants was credited to deficit and deducted from the warrants reserve. These warrants were issued as part of the loan agreement for which the balance was repaid on July 31, 2019.

(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. All warrants were vested as at June 30, 2020.

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

	2020	2019
	\$	\$
Cost of parts and components	730	2,278
Employee costs	75	347
Professional fees	—	20
Other	74	182
	879	2,827

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:

	2020	2019
	\$	\$
Employee costs	423	1,541
Professional fees	64	169
Advertising, travel and trade show	33	374
Amortization of property and equipment	42	21
Other	22	427
	584	2,532

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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:

	2020	2019
	\$	\$
Employee costs	311	738
Professional fees	170	235
Amortization of property and equipment and intangible assets	139	159
Other	241	294
	861	1,426

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:

	2020	2019
	\$	\$
Employee costs	309	617
Professional fees	18	10
Amortization of property and equipment and intangible assets	41	43
Tax credits	(130)	(108)
Other	31	239
	269	801

7.5 Government Assistance

During the quarter ended June 30, 2020 the Corporation recognized \$593 of government assistance related to the ‘Canada Emergency Wage Subsidy’ and is included in accounts receivable as at June 30, 2020; \$46 has been recognized as a reduction of intangible assets and \$547 as a reduction of operating expenses.

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8. SUBSEQUENT EVENTS

On July 24, 2020, the Corporation signed a definitive agreement with the NBC related to the availability of a line of credit amounting to \$4,000 for the ongoing operations and working capital of the Corporation. This line of credit will be renewable annually and will bear interest at prime rate plus 3.25%. The line of credit will be secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary, and will replace the three-year secured revolving credit facility with the NBC from which an amount of \$4,000 was drawn at June 30, 2020.

On July 24, 2020, the Corporation also signed a definitive agreement with the Business Development Bank of Canada ["BDC"] related to the availability of a working capital commercial loan of \$2,000. This loan will bear interest at a variable rate, currently 4.55%, and will be payable in 24 monthly instalments of \$33 from June 2021 to May 2023 and by a final payment of \$1,200 in June 2023. The loan will be secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.