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]

| | Notes | June 30, 2019<br>$ | March 31, 2019<br>$ |
|---|---|---|---|
| **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<br>$ | 2018<br>$ |
|---|---|---|---|
| **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) |
| ***Items that will be reclassified to net loss in subsequent periods:*** | | | |
| 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<br>$ | 2018<br>$ |
|---|---|---|---|
| **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.*

## 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.

## *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.

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

*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 |

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

## 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].

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

# 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 |

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

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 Price $** | **Number #** | **Exercise 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.

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

# 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 |

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

## *7.3 Administration*

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| 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<br>$ | 2018<br>$ |
|---|---|---|
| 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 |

## 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.