Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

September 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	September 30, 2019 $	March 31, 2019 $
ASSETS			
Current assets			
Cash and cash equivalents		**6,202**	9,635
Accounts receivable		**5,098**	6,462
Derivative financial instruments		**30**	—
Inventories	3	**7,707**	7,526
Prepaid expenses and deposits		**623**	906
		19,660	24,529
Non-current assets			
Property and equipment		**6,313**	6,002
Intangible assets		**3,310**	3,165
Other assets		**19**	68
		29,302	33,764
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**4,886**	6,608
Derivative financial instruments		**—**	126
Warranty provision		**160**	162
Deferred revenues		**475**	654
Current portion of lease liabilities	2.1	**268**	—
Current portion of long-term debt	5	**—**	4,853
		5,789	12,403
Non-current liabilities			
Employee benefits		**—**	838
Lease liabilities	2.1	**366**	—
Long-term debt	5	**4,000**	—
		10,155	13,241
Equity			
Share capital	6.1	**62,762**	62,762
Share-based payments reserve	6.2	**5,595**	5,534
Warrants reserve	6.3	**—**	528
Foreign currency translation reserve		**(334)**	(436)
Deficit		**(48,876)**	(47,865)
		19,147	20,523
		29,302	33,764

See accompanying notes.

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

Quarters and six-month periods ended September 30
[in thousands of Canadian dollars, except share and per-share amounts]

		Second Quarter		Six Months	
	Notes	2019 $	2018 $	2019 $	2018 $
Revenues					
Motion systems for:					
Entertainment market:					
Theatrical entertainment:					
System sales		**1,782**	2,688	**3,523**	4,885
Rights for use, rental and maintenance		**1,811**	2,102	**4,245**	4,707
		3,593	4,790	**7,768**	9,592
Commercial entertainment system sales		**724**	1,312	**1,719**	3,824
Home entertainment system sales		**174**	365	**321**	618
		4,491	6,467	**9,808**	14,034
Simulation and training market		**1,838**	1,619	**4,054**	3,564
		6,329	8,086	**13,862**	17,598
Cost of goods sold excluding amortization	7.1	**2,471**	3,535	**5,298**	7,157
Amortization related to cost of goods sold		**390**	503	**843**	1,010
Cost of goods sold		**2,861**	4,038	**6,141**	8,167
Gross profit		**3,468**	4,048	**7,721**	9,431
Other expenses					
Selling and marketing	7.2	**2,053**	2,372	**4,585**	5,036
Administration	7.3	**1,386**	1,583	**2,812**	3,210
Research and development	7.4	**577**	747	**1,378**	1,511
Foreign exchange loss (gain)		**99**	(84)	**113**	311
		4,115	4,618	**8,888**	10,068
Loss before financial expenses (income) and income taxes		**(647)**	(570)	**(1,167)**	(637)
Financial expenses (income)					
Financial expenses		**308**	145	**436**	294
Interest income		**(28)**	(17)	**(63)**	(32)
		280	128	**373**	262
Loss before income taxes		**(927)**	(698)	**(1,540)**	(899)
Income taxes (recovery)		**6**	50	**(1)**	78
Net loss		**(933)**	(748)	**(1,539)**	(977)
Items that will be reclassified to net loss in subsequent periods:					
Foreign currency translation gain		**16**	31	**102**	58
Comprehensive loss		**(917)**	(717)	**(1,437)**	(919)
Basic and diluted net loss per share		**(0.005)**	(0.004)	**(0.009)**	(0.006)
Weighted average number of common shares outstanding		**175,950,573**	175,950,573	**175,950,573**	175,950,573

See accompanying notes.

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

Six-month periods ended September 30, 2019 and 2018
[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		**—**	**—**	**—**	**—**	**(1,539)**	**(1,539)**
Foreign currency translation gain		**—**	**—**	**—**	**102**	**—**	**102**
Comprehensive loss		**—**	**—**	**—**	**102**	**(1,539)**	**(1,437)**
Share-based payments	6.2	**—**	**61**	**—**	**—**	**—**	**61**
Expiration of warrants	6.3	**—**	**—**	**(528)**	**—**	**528**	—
Balance as at September 30, 2019		**62,762**	**5,595**	**—**	**(334)**	**(48,876)**	**19,147**
Balance as at March 31, 2018		62,762	5,377	528	(410)	(46,160)	22,097
Net loss		—	—	—	—	(977)	(977)
Foreign currency translation gain		—	—	—	58	—	58
Comprehensive loss		—	—	—	58	(977)	(919)
Share-based payments	6.2	—	93	—	—	—	93
Balance as at September 30, 2018		62,762	5,470	528	(352)	(47,137)	21,271

See accompanying notes.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Six-month periods ended September 30
[in thousands of Canadian dollars]

	Notes	2019 $	2018 $
OPERATING ACTIVITIES			
Net loss		**(1,539)**	(977)
Items not affecting cash			
Amortization of property and equipment		**856**	1,110
Amortization of intangible assets		**462**	405
Amortization of other assets		**2**	2
Write-offs of property and equipment		**2**	—
Share-based payments	6.2	**61**	93
Unrealized foreign exchange gain		**(36)**	(12)
Share-based compensation liability		—	(65)
Employee benefit liability		**240**	224
Accretion of interest expense		**147**	78
Cash flows from operations before changes in working capital items		**195**	858
Changes in working capital items:			
Accounts receivable		**1,402**	(658)
Inventories		**(181)**	346
Prepaid expenses and deposits		**283**	(342)
Goods held for lease		**(75)**	(58)
Other assets		**47**	5
Accounts payable and accrued liabilities		**(2,715)**	(1,627)
Derivative financial instruments		**(156)**	95
Warranty provision		**(2)**	8
Deferred revenues		**(179)**	133
		(1,576)	(2,098)
Cash flows relating to operating activities		**(1,381)**	(1,240)
INVESTING ACTIVITIES			
Additions to property and equipment		**(357)**	(139)
Disposal of property and equipment		**7**	2
Additions to intangible assets		**(558)**	(366)
Cash flows relating to investing activities		**(908)**	(503)
FINANCING ACTIVITIES			
Payment of lease liabilities		**(126)**	—
Long-term debt refund		**(5,000)**	—
Proceeds from long-term debt		**4,000**	—
Cash flows relating to financing activities		**(1,126)**	—
Effect of exchange rate fluctuations on cash and cash equivalents		**(18)**	25
Net change in cash and cash equivalents		**(3,433)**	(1,718)
Cash and cash equivalents, beginning of period		**9,635**	10,141
Cash and cash equivalents, end of period		**6,202**	8,423
Cash and cash equivalents consist of:			
Cash		**1,113**	1,976
Cash equivalents		**5,089**	6,447
Interest included in operating activities:			
Interest paid		**156**	175
Income tax paid		**1**	77

See accompanying notes.

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 commercializes cutting-edge motion systems intended for the entertainment and the 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 or any 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 sales 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 November 14, 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 accounting standards 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 twelve 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

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The following table presents the reconciliation of the lease liabilities as at September 30, 2019:

	$
As at April 1, 2019	760
Lease payments	(153)
Interest expense on lease liabilities	24
Translation adjustment	3
As at September 30, 2019	634

3. INVENTORIES

	September 30, 2019 $	**March 31, 2019** $
Parts and components	**6,298**	5,896
Finished goods	**1,409**	1,630
	7,707	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	**(470,000)**	**(80,000)**	—	—
Balance as at September 30	**—**	**160,000**	470,000	400,000
Units exercisable at end of period	**—**	**160,000**	—	400,000

The RSU share units vested three years after grant date and were redeemed for cash on July 4, 2019. The DSU share units will be redeemed for cash or shares upon termination of the participant’s service for all vested units.

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

For the quarter and the six-month periods ended September 30, 2019, the share-based compensation expense charged to income as employee costs, amounted to ($7) and ($5) [($8) and $2 for the quarter and the six-month periods ended September 30, 2018]. As at September 30, 2019, an amount of $19 [$100 as at March 31, 2019] was accounted for in accounts payable and accrued liabilities.

5. LONG-TERM DEBT

	September 30, 2019	**March 31, 2019**
	$	$
Loan	4,000	4,853

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 former $5.0 million loan [plus accrued interest] which was maturing on February 5, 2020.

As at September 30, 2019, the effective interest rate of long-term debt was 6.2% [10.7% as at March 31, 2019] and the Corporation was in compliance with all debt covenants.

During the quarter and the six-month periods ended September 30, 2019, the interest expense on long-term debt charged to loss amounted to respectively $172 and $303, including an amount of $103 and $147 related to the accretion of interest [$128 and $253 including an amount of $40 and $78 accounted for as an accretion expense for the quarter and the six-month periods ended September 30, 2018].

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

6. EQUITY

6.1 Share Capital

Class A common shares of the Corporation for the six-month periods ended September 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 six-month periods ended September 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**	**0.37**	15,049,934	0.37
Options granted	**1,990,000**	**0.14**	100,000	0.24
Options cancelled	**(630,000)**	**0.29**	(223,667)	0.37
Options expired	**(200,000)**	**0.47**	—	—
Balance as at September 30	**16,967,100**	**0.33**	14,926,267	0.37
Options exercisable at end of period	**13,087,683**	**0.37**	13,579,097	0.37

The fair value for options granted during the three-month periods ended September 30, 2019 and 2018 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 1.21% weighted average risk-free interest rate [2.02% in 2018]; no dividend; 63% weighted average volatility factor of the expected market price for the Corporation's shares [67% in 2018]; 7.29% weighted average forfeiture rate [5.53% in 2018]; $0.13 weighted average share price

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

[$0.24 in 2018] and an expected weighted average option life of 6.6 years [6.6 years in 2018]. 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 $0.08 per option [$0.15 per option in 2018], amortized through net loss over the vesting periods of the options.

For the quarter and the six-month periods ended September 30, 2019, the share-based compensation expense charged to loss amounted to $16 and $61 [$38 and $93 for the quarter and the six-month periods ended September 30, 2018], with a corresponding amount recognized under share-based payments reserve.

6.3 Warrants

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

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

(a) On August 5, 2019, 4,500,000 warrants expired. 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 reimbursed during the quarter.

(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 September 30, 2019.

[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 quarters and six-month periods ended September 30:

	Second Quarter		Six Months	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Cost of parts and components	**2,063**	2,798	**4,341**	5,853
Employee costs	**268**	367	**615**	703
Professional fees	**30**	21	**50**	47
Other	**110**	349	**292**	554
	2,471	3,535	**5,298**	7,157

7.2 Selling and Marketing

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

	Second Quarter		Six Months	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Employee costs	**1,251**	1,481	**2,792**	3,048
Professional fees	**217**	264	**386**	512
Advertising, travel and trade show	**304**	115	**678**	499
Amortization of property and equipment	**75**	33	**96**	69
Other	**206**	479	**633**	908
	2,053	2,372	4,585	5,036

[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 quarters and six-month periods ended September 30:

	Second Quarter		**Six Months**	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Employee costs	**750**	850	**1,488**	1,801
Professional fees	**244**	198	**479**	444
Amortization of property and equipment and intangible assets	**139**	162	**298**	352
Other	**253**	373	**547**	613
	1,386	1,583	**2,812**	3,210

7.4 Research and Development

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

	Second Quarter		**Six Months**	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Employee costs	**368**	492	**995**	1,062
Amortization of property and equipment and intangible assets	**40**	45	**83**	86
Tax credits	**(40)**	—	**(33)**	(42)
Investment tax credit reversal	**115**	—	—	—
Other	**94**	210	**333**	405
	577	747	**1,378**	1,511