

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

December 31, 2018

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]

		December 31, 2018	March 31, 2018
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		8,898	10,141
Accounts receivable		5,640	5,255
Inventories	3	7,829	7,761
Prepaid expenses and deposits		970	494
		23,337	23,651
Non-current assets			
Property and equipment		6,306	7,427
Intangible assets		3,133	3,202
Other assets		2	74
		32,778	34,354
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		4,726	6,347
Derivative financial instruments		537	72
Warranty provision		246	237
Deferred revenues		605	347
		6,114	7,003
Non-current liabilities			
Share-based compensation liability	4	—	65
Employee benefits		829	496
Long-term debt	5	4,812	4,693
		11,755	12,257
Equity			
Share capital	6.1	62,762	62,762
Share-based payments reserve	6.2	5,486	5,377
Warrants reserve	6.3	528	528
Foreign currency translation reserve		(439)	(410)
Deficit		(47,314)	(46,160)
		21,023	22,097
		32,778	34,354

See accompanying notes.

D-BOX Technologies Inc.
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)
AND OTHER COMPREHENSIVE INCOME (LOSS)**

Quarters and nine-month periods ended December 31

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

	Notes	Third Quarter		Nine Months	
		2018 \$	2017 \$	2018 \$	2017 \$
Revenues					
Motion systems for:					
Entertainment market:					
Theatrical entertainment:					
System sales		1,896	3,537	6,781	8,785
Rights for use, rental and maintenance		2,073	2,482	6,780	6,460
		3,969	6,019	13,561	15,245
Commercial entertainment system sales		2,140	2,760	5,963	4,105
Home entertainment system sales		146	265	763	2,227
		6,255	9,044	20,287	21,577
Simulation and training market		2,003	1,356	5,568	4,617
		8,258	10,400	25,855	26,194
Cost of goods sold excluding amortization	7.1	3,170	4,861	10,327	11,255
Amortization related to cost of goods sold		398	477	1,408	1,428
Cost of goods sold		3,568	5,338	11,735	12,683
Gross profit		4,690	5,062	14,120	13,511
Other expenses					
Selling and marketing	7.2	2,325	2,502	7,362	7,437
Administration	7.3	1,760	1,537	4,971	4,802
Research and development	7.4	705	786	2,217	2,373
Foreign exchange loss (gain)		(15)	52	294	266
		4,775	4,877	14,844	14,878
Income (loss) before financial expenses (income) and income taxes		(85)	185	(724)	(1,367)
Financial expenses (income)					
Financial expenses		144	147	438	434
Interest income		(21)	(13)	(54)	(33)
		123	134	384	401
Income (loss) before income taxes		(208)	51	(1,108)	(1,768)
Income taxes (recovery)		(31)	—	46	5
Net income (loss)		(177)	51	(1,154)	(1,773)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain (loss)		30	26	(29)	61
Comprehensive income (loss)		(147)	25	(1,183)	(1,712)
Basic and diluted net income (loss) per share		(0.001)	0.000	(0.007)	(0.010)
Weighted average number of common shares outstanding		175,950,373	175,950,279	175,950,373	175,950,573

See accompanying notes.

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

Nine-month periods ended December 31, 2018 and 2017

[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, 2018		62,762	5,377	528	(410)	(46,160)	22,097
Net loss		—	—	—	—	(1,154)	(1,154)
Foreign currency translation loss		—	—	—	(29)	—	(29)
Comprehensive loss		—	—	—	(29)	(1,154)	(1,183)
Share-based payments	6.2	—	109	—	—	—	109
Balance as at December 31, 2018		62,762	5,486	528	(439)	(47,314)	21,023
Balance as at March 31, 2017		62,762	5,151	959	(437)	(44,830)	23,605
Net loss		—	—	—	—	(1,773)	(1,773)
Foreign currency translation gain		—	—	—	61	—	61
Comprehensive loss		—	—	—	61	(1,773)	(1,712)
Share-based payments	6.2	—	206	—	—	—	206
Expiration of warrants	6.3	—	—	(431)	—	431	—
Balance as at December 31, 2017		62,762	5,357	528	(376)	(46,172)	22,099

See accompanying notes.

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

Nine-month periods ended December 31
[in thousands of Canadian dollars]

	Notes	2018 \$	2017 \$
OPERATING ACTIVITIES			
Net loss		(1,154)	(1,773)
Items not affecting cash			
Amortization of property and equipment		1,512	1,763
Amortization of intangible assets		602	487
Amortization of other assets		2	3
Write-off of intangible assets		—	52
Share-based payments	6.2	109	206
Unrealized foreign exchange loss (gain)		55	(385)
Share-based compensation liability		(1)	19
Employee benefit liability		333	294
Accretion of interest expense		118	107
Cash flows from operations before changes in working capital items		1,576	773
Changes in working capital items:			
Accounts receivable		(602)	(511)
Inventories		(68)	996
Prepaid expenses and deposits		(476)	(116)
Goods held for lease		(58)	(241)
Other assets		70	(198)
Accounts payable and accrued liabilities		(1,989)	352
Derivative financial instruments		465	4
Warranty provision		9	—
Deferred revenues		258	(586)
		(2,381)	(300)
Cash flows relating to operating activities		(815)	473
INVESTING ACTIVITIES			
Additions to property and equipment		(210)	(938)
Disposal of property and equipment		7	—
Additions to intangible assets		(523)	(523)
Cash flows relating to investing activities		(726)	(1,461)
Effect of exchange rate fluctuations on cash and cash equivalents		298	(81)
Net change in cash and cash equivalents		(1,243)	(1,069)
Cash and cash equivalents, beginning of period		10,141	8,867
Cash and cash equivalents, end of period		8,898	7,798
Cash and cash equivalents consist of:			
Cash		3,265	2,635
Cash equivalents		5,633	5,163
Interest included in operating activities:			
Interest paid		264	265
Income tax paid		46	5

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2018

[Amounts are in thousands of Canadian dollars, except share, option, warrant, share unit, 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 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 in commercial theatres, home entertainment consumer products [particularly video gamings and home theatres], commercial entertainment motion systems and rights for use, rental and maintenance mainly in the theatrical market. 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 February 13, 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, 2018 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.

Certain prior period comparative figures have been reclassified to conform to current period presentation.

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2.1 Changes in accounting policies

- On April 1, 2018, the Corporation adopted IFRS 9, *Financial Instruments*, which simplifies the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. IFRS 9 also introduces a new expected loss impairment model that will require timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis.

The adoption of IFRS 9 had no impact on the interim condensed consolidated financial statements of the Corporation.

- On April 1, 2018, the Corporation also adopted IFRS 15, *Revenue from Contracts with Customers*, which specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Accordingly, the Corporation now recognizes a contract with a customer only when all of the following criteria are satisfied:
 - The parties to the contract have approved the contract - in writing, orally or in accordance with other customary business practices - and are committed to performing their respective obligations;
 - The entity can identify each party's rights regarding the goods or services to be transferred;
 - The entity can identify the payment terms for the goods or services to be transferred;
 - The contract has commercial substance [i.e., the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract]; and
 - It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The adoption of IFRS 15 had no impact on the interim condensed consolidated financial statements of the Corporation.

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3. INVENTORIES

	December 31, 2018	March 31, 2018
	\$	\$
Parts and components	5,831	5,176
Finished goods	1,998	2,585
	7,829	7,761

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

	2018		2017	
	RSU Share Units	DSU Share Units	RSU Share Units	DSU Share Units
Balance as at March 31	470,000	400,000	530,000	560,000
Issued	—	—	—	—
Redeemed for cash	—	(80,000)	(60,000)	(160,000)
Balance as at December 31	470,000	320,000	470,000	400,000
Units exercisable at end of period	—	320,000	—	400,000

The RSU share units will vest three years after grant date and will be redeemed for cash or shares at 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 quarter and the nine-month period ended December 31, 2018, the share-based compensation credit on expense charged to income as employee costs, amounted to \$52 and \$50 [credit to income of \$12 and \$56 for the quarter and the nine-month period ended December 31, 2017]. An amount of \$117 [\$120 in 2017] was accounted for in accounts payable and accrued liabilities.

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5. LONG-TERM DEBT

	December 31, 2018	March 31, 2018
	\$	\$
Loan	4,812	4,693

On December 31, 2018, the effective interest rate of long-term debt was 10.7% [10.7% in 2017], and the Corporation was in compliance with all debt covenants.

During the quarter and the nine-month period ended December 31, 2018, the interest expense on long-term debt charged to loss amounted to respectively \$129 and \$382, including an amount of \$40 and \$118 related to the accretion of interest [\$125 and \$369 including and an amount of \$36 and \$107 related to the accretion of interest for the quarter and the nine-month period ended December 31, 2017].

6. EQUITY

6.1 Share capital

Class A common shares of the Corporation for the nine-month periods ended December 31, 2018 and 2017 are summarized in the following table:

	2018		2017	
	#	\$	#	\$
Balance as at March 31	175,950,573	62,762	175,950,573	62,762
Shares issued on exercise of options	—	—	—	—
Balance as at December 31	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 nine-month periods ended December 31, 2018 and 2017 are summarized in the following table:

	2018		2017	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance as at March 31	15,049,934	0.37	13,895,845	0.37
Options granted	1,667,500	0.19	1,500,755	0.34
Options cancelled	(815,334)	0.34	(133,333)	0.34
Balance as at December 31	15,902,100	0.35	15,263,267	0.37
Options exercisable at end of period	13,287,431	0.37	13,215,845	0.37

The fair value for options granted during the nine-month periods ended December 31, 2018 and 2017 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 1.99% weighted average risk-free interest rate [1.39% in 2017]; no dividend; 66% weighted average volatility factor of the expected market price for the Corporation's shares [69.5% in 2017]; 6.09% weighted average forfeiture rate [4.4% in 2017]; \$0.19 weighted average share price [\$0.33 in 2017] and an expected weighted average option life of 6.7 years [6.4 years in 2017]. 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 \$0.12 per option [\$0.21 per option in 2017], amortized through income (loss) over the vesting periods of the options.

For the quarter and the nine-month period ended December 31, 2018, the share-based compensation expense charged to loss amounted to \$16 and \$109 [\$70 and \$206 for the quarter and the nine-month period ended December 31, 2017], with a corresponding amount recognized under share-based payments reserve.

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6.3 Warrants

Warrants for the nine-month periods ended December 31, 2018 and 2017 are summarized in the following table:

	2018		2017	
	Number #	Exercise Price \$	Number #	Exercise Price \$
Expired on June 18, 2017 (a)	—	—	—	—
Expiring on August 5, 2019	4,500,000	0.50	4,500,000	0.50
Expiring on December 22, 2022	2,000,000	(b)	2,000,000	(b)
Balance	6,500,000		6,500,000	

- (a) On June 18, 2017, 8,333,333 warrants expired. An amount of \$431, representing the initial fair value of the warrants, was credited to deficit and deducted from the warrants reserve.
- (b) The 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 December 31, 2018.

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 costs of goods sold excluding amortization are detailed as follows for the quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2018 \$	2017 \$	2018 \$	2017 \$
Cost of parts and components	2,758	4,360	8,612	9,847
Employee costs	360	181	1,062	585
Professional fees	(9)	99	38	227
Other	61	221	615	596
	3,170	4,861	10,327	11,255

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7.2 Selling and marketing

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

	Third Quarter		Nine Months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	1,385	1,570	4,434	4,540
Professional fees	246	371	758	927
Amortization of property and equipment	21	46	90	139
Restructuring costs	—	—	—	17
Other	673	515	2,080	1,814
	2,325	2,502	7,362	7,437

7.3 Administration

The key components of administration expenses are detailed as follows for the quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	1,060	882	2,863	2,544
Professional fees	302	184	746	614
Amortization of property and equipment and intangible assets	138	194	490	565
Restructuring costs	—	—	—	240
Other	260	277	872	839
	1,760	1,537	4,971	4,802

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7.4 Research and development

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

	Third Quarter		Nine Months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	540	624	1,602	1,845
Professional fees	—	24	—	69
Amortization of property and equipment and intangible assets	39	38	126	121
Other	126	100	489	338
	705	786	2,217	2,373