

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

September 30, 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]

		September 30, 2018	March 31, 2018
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		8,423	10,141
Accounts receivable		5,908	5,255
Inventories	3	7,415	7,761
Prepaid expenses and deposits		836	494
		22,582	23,651
Non-current assets			
Property and equipment		6,530	7,427
Intangible assets		3,186	3,202
Other assets		67	74
		32,365	34,354
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		4,711	6,347
Derivative financial instruments		167	72
Warranty provision		245	237
Deferred revenues		480	347
		5,603	7,003
Non-current liabilities			
Share-based compensation liability	4	—	65
Employee benefits		720	496
Long-term debt	5	4,771	4,693
		11,094	12,257
Equity			
Share capital	6.1	62,762	62,762
Share-based payments reserve	6.2	5,470	5,377
Warrants reserve	6.3	528	528
Foreign currency translation reserve		(352)	(410)
Deficit		(47,137)	(46,160)
		21,271	22,097
		32,365	34,354

See accompanying notes.

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

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

	Notes	Second Quarter		Six Months	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenues					
Motion systems for:					
Entertainment market:					
Theatrical entertainment:					
System sales		2,688	2,133	4,885	5,248
Rights for use, rental and maintenance		2,102	1,828	4,707	3,978
		4,790	3,961	9,592	9,226
Commercial entertainment system sales		1,312	903	3,824	1,345
Home entertainment system sales		365	1,211	618	1,962
		6,467	6,075	14,034	12,533
Simulation and training market		1,619	1,578	3,564	3,261
		8,086	7,653	17,598	15,794
Cost of goods sold excluding amortization	7.1	3,535	3,183	7,157	6,394
Amortization related to cost of goods sold		503	469	1,010	951
Cost of goods sold		4,038	3,652	8,167	7,345
Gross profit		4,048	4,001	9,431	8,449
Other expenses					
Selling and marketing	7.2	2,372	2,420	5,036	4,935
Administration	7.3	1,583	1,548	3,210	3,265
Research and development	7.4	747	679	1,511	1,587
Foreign exchange loss (gain)		(84)	59	311	214
		4,618	4,706	10,068	10,001
Loss before financial expenses (income) and income taxes		(570)	(705)	(637)	(1,552)
Financial expenses (income)					
Financial expenses		145	142	294	287
Interest income		(17)	(11)	(32)	(20)
		128	131	262	267
Loss before income taxes		(698)	(836)	(899)	(1,819)
Income taxes		50	4	78	5
Net loss		(748)	(840)	(977)	(1,824)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain		31	46	58	87
Comprehensive loss		(717)	(794)	(919)	(1,737)
Basic and diluted net loss per share		(0.004)	(0.004)	(0.006)	(0.010)
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, 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		—	—	—	—	(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
Balance as at March 31, 2017		62,762	5,151	959	(437)	(44,830)	23,605
Net loss		—	—	—	—	(1,824)	(1,824)
Foreign currency translation gain		—	—	—	87	—	87
Comprehensive loss		—	—	—	87	(1,824)	(1,737)
Share-based payments	6.2	—	136	—	—	—	136
Expiration of warrants	6.3	—	—	(431)	—	431	—
Balance as at September 30, 2017		62,762	5,287	528	(350)	(46,223)	22,004

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	2018 \$	2017 \$
OPERATING ACTIVITIES			
Net loss		(977)	(1,824)
Items not affecting cash			
Amortization of property and equipment		1,110	1,170
Amortization of intangible assets		405	326
Amortization of other assets		2	2
Share-based payments	6.2	93	136
Unrealized foreign exchange gain		(12)	(335)
Share-based compensation liability		(65)	18
Employee benefit liability		224	196
Accretion of interest expense		78	70
Cash flows from operations before changes in working capital items		858	(241)
Changes in working capital items:			
Accounts receivable		(658)	1,407
Inventories		346	525
Prepaid expenses and deposits		(342)	(15)
Goods held for lease		(58)	(547)
Other assets		5	(15)
Accounts payable and accrued liabilities		(1,627)	526
Derivative financial instruments		95	(162)
Warranty provision		8	—
Deferred revenues		133	(363)
		(2,098)	1,356
Cash flows relating to operating activities		(1,240)	1,115
INVESTING ACTIVITIES			
Additions to property and equipment		(139)	(367)
Disposal of property and equipment		2	—
Additions to intangible assets		(366)	(417)
Cash flows relating to investing activities		(503)	(784)
Effect of exchange rate fluctuations on cash and cash equivalents		25	(84)
Net change in cash and cash equivalents		(1,718)	247
Cash and cash equivalents, beginning of period		10,141	8,867
Cash and cash equivalents, end of period		8,423	9,114
Cash and cash equivalents consist of:			
Cash		1,976	3,462
Cash equivalents		6,447	5,652
Interest included in operating activities:			
Interest paid		175	176
Income tax paid		77	5

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 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 games 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 November 14, 2018.

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. Thus, 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

	September 30, 2018 \$	March 31, 2018 \$
Parts and components	5,411	5,176
Finished goods	2,004	2,585
	7,415	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 loss and other comprehensive 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	—	—	60,000	—
Balance as at September 30	470,000	400,000	470,000	560,000
Units exercisable at end of period	—	400,000	—	560,000

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 six-month period ended September 30, 2018, the share-based compensation expense charged to income as employee costs, amounted to (\$8) and \$2 [\$12 and \$18 for the quarter and the six-month period ended September 30, 2017]. An amount of \$163 [\$199 in 2017] was accounted for in accounts payable and accrued and \$0 [\$69 in 2017] was accounted for the non-current portion under share-based compensation liability.

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5. LONG-TERM DEBT

	September 30, 2018	March 31, 2018
	\$	\$
Loan	4,771	4,693

On September 30, 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 six-month period ended September 30, 2018, the interest expense on long-term debt charged to loss amounted to respectively \$127 and \$253, including an amount of \$40 and \$78 related to the accretion of interest [\$123 and \$244 including and amount of \$35 and \$70 accounted for as an accretion expense for the quarter and the six-month period ended September 30, 2017].

6. EQUITY

6.1 Share capital

Class A common shares of the Corporation for the six-month periods ended September 30, 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 September 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 six-month periods ended September 30, 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	100,000	0.24	1,500,755	0.34
Options cancelled	(223,667)	0.37	—	—
Balance as at September 30	14,926,267	0.37	15,396,600	0.37
Options exercisable at end of period	13,579,097	0.37	13,015,845	0.36

The fair value for options granted during the three-month periods ended September 30, 2018 and 2017 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 [1.39% in 2017]; no dividend; 67% weighted average volatility factor of the expected market price for the Corporation's shares [69.5% in 2017]; 5.53% weighted average forfeiture rate [4.4% in 2017]; \$0.24 weighted average share price [\$0.33 in 2017] and an expected weighted average option life of 6.6 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 \$0.15 per option [\$0.21 per option in 2017], amortized through income (loss) over the vesting periods of the options.

For the quarter and the six-month period ended September 30, 2018, the share-based compensation expense charged to loss amounted to \$38 and \$93 [\$80 and \$136 for the quarter and the six-month period ended September 30, 2017], with a corresponding amount recognized under share-based payments reserve.

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6.3 Warrants

Warrants for the six-month periods ended September 30, 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) 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, 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 six-month periods ended September 30:

	Second Quarter		Six Months	
	2018 \$	2017 \$	2018 \$	2017 \$
Cost of parts and components	2,798	2,710	5,853	5,487
Employee costs	367	155	703	404
Professional fees	21	86	47	126
Other	349	232	554	377
	3,535	3,183	7,157	6,394

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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 six-month periods ended September 30:

	Second Quarter		Six Months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	1,481	1,451	3,048	2,969
Professional fees	264	281	512	557
Advertising, travel and trade show	115	246	499	488
Amortization of property and equipment	33	38	69	93
Restructuring costs	—	—	—	17
Other	479	404	908	811
	2,372	2,420	5,036	4,935

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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	850	823	1,801	1,662
Professional fees	198	236	444	190
Amortization of property and equipment and intangible assets	162	193	352	371
Restructuring costs	—	—	—	240
Other	373	296	613	802
	1,583	1,548	3,210	3,265

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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 six-month periods ended September 30:

	Second Quarter		Six Months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee costs	492	538	1,062	1,221
Professional fees	—	27	—	45
Amortization of property and equipment and intangible assets	45	42	86	83
Other	210	72	363	238
	747	679	1,511	1,587