

Unaudited Interim Condensed Consolidated Financial Statements

**D-BOX Technologies Inc.**

September 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]

		September 30, 2020	March 31, 2020
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,979	4,116
Accounts receivable		3,791	6,474
Inventories	3	5,656	6,531
Prepaid expenses and deposits		794	490
Current portion of finance leases receivable		31	—
		<b>15,251</b>	17,611
<b>Non-current assets</b>			
Property and equipment		4,676	5,589
Intangible assets		2,420	2,581
Finance leases receivable		417	461
Other assets		585	629
		<b>23,349</b>	26,871
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Credit facility	5	3,016	—
Accounts payable and accrued liabilities		3,398	4,730
Derivative financial instruments		42	846
Warranty provision		113	114
Deferred revenues		956	953
Current portion of lease liabilities		316	273
Current portion of long-term debt	6	100	4,000
		<b>7,941</b>	10,916
<b>Non-current liabilities</b>			
Lease liabilities		858	1,056
Long-term debt	6	1,828	—
Employee benefits		—	549
		<b>10,627</b>	12,521
<b>Equity</b>			
Share capital	7.1	62,762	62,762
Share-based payments reserve	7.2	2,150	2,149
Foreign currency translation reserve		(299)	(514)
Deficit		(51,891)	(50,047)
		<b>12,722</b>	14,350
		<b>23,349</b>	26,871

*See accompanying notes to consolidated financial statements.*

**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]

	Notes	Second Quarter		Six Months	
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Revenues</b>					
System sales		2,668	4,518	4,800	9,617
Rights for use, rental and maintenance		249	1,811	346	4,245
		<b>2,917</b>	<b>6,329</b>	<b>5,146</b>	<b>13,862</b>
<b>Cost of goods sold</b>					
Cost of goods sold excluding amortization	8.1	1,612	2,471	2,491	5,298
Amortization related to cost of goods sold		434	390	877	843
Cost of goods sold		<b>2,046</b>	<b>2,861</b>	<b>3,368</b>	<b>6,141</b>
<b>Gross profit</b>		<b>871</b>	<b>3,468</b>	<b>1,778</b>	<b>7,721</b>
<b>Other expenses</b>					
Selling and marketing	8.2	903	2,053	1,489	4,585
Administration	8.3	752	1,386	1,612	2,812
Research and development	8.4	408	577	677	1,378
Foreign exchange loss (gain)		(335)	99	(270)	113
		<b>1,728</b>	<b>4,115</b>	<b>3,508</b>	<b>8,888</b>
<b>Loss before financial expenses (income) and income taxes</b>		<b>(857)</b>	<b>(647)</b>	<b>(1,730)</b>	<b>(1,167)</b>
<b>Financial expenses (income)</b>					
Financial expenses		101	308	198	436
Interest income		(3)	(28)	(7)	(63)
		<b>98</b>	<b>280</b>	<b>191</b>	<b>373</b>
<b>Loss before income taxes</b>		<b>(955)</b>	<b>(927)</b>	<b>(1,921)</b>	<b>(1,540)</b>
<b>Income taxes (recovery)</b>		<b>(1)</b>	<b>6</b>	<b>(1)</b>	<b>(1)</b>
<b>Net loss</b>		<b>(954)</b>	<b>(933)</b>	<b>(1,920)</b>	<b>(1,539)</b>
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain		46	16	215	102
<b>Comprehensive loss</b>		<b>(908)</b>	<b>(917)</b>	<b>(1,705)</b>	<b>(1,437)</b>
<b>Basic and diluted net loss per share</b>		<b>(0.005)</b>	<b>(0.005)</b>	<b>(0.010)</b>	<b>(0.008)</b>
<b>Weighted average number of common shares outstanding</b>		<b>175,950,573</b>	<b>175,950,573</b>	<b>175,950,573</b>	<b>175,950,573</b>

See accompanying notes to consolidated financial statements.

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

Six-month periods ended September 30, 2020 and 2019

[in thousands of Canadian dollars]

	Notes	Share capital \$	Share- based payments reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total \$
<b>Balance as at March 31, 2020</b>		<b>62,762</b>	<b>2,149</b>	<b>—</b>	<b>(514)</b>	<b>(50,047)</b>	<b>14,350</b>
Net loss		—	—	—	—	(1,920)	(1,920)
Foreign currency translation gain		—	—	—	215	—	215
Comprehensive loss		—	—	—	215	(1,920)	(1,705)
Share-based payments	7.2	—	77	—	—	—	77
Cancellation and expiration of stock options	7.2	—	(76)	—	—	76	—
<b>Balance as at September 30, 2020</b>		<b>62,762</b>	<b>2,150</b>	<b>—</b>	<b>(299)</b>	<b>(51,891)</b>	<b>12,722</b>
<b>Balance as at March 31, 2019</b>		<b>62,762</b>	<b>5,534</b>	<b>528</b>	<b>(436)</b>	<b>(47,865)</b>	<b>20,523</b>
Net loss		—	—	—	—	(1,539)	(1,539)
Foreign currency translation gain		—	—	—	102	—	102
Comprehensive loss		—	—	—	102	(1,539)	(1,437)
Share-based payments	7.2	—	61	—	—	—	61
Expiration of warrants	7.3	—	—	(528)	—	528	—
<b>Balance as at September 30, 2019</b>		<b>62,762</b>	<b>5,595</b>	<b>—</b>	<b>(334)</b>	<b>(48,876)</b>	<b>19,147</b>

*See accompanying notes to consolidated financial statements.*

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

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

	Notes	2020 \$	2019 \$
<b>OPERATING ACTIVITIES</b>			
Net loss		(1,920)	(1,539)
Items not affecting cash			
Amortization of property and equipment		876	856
Amortization of intangible assets		380	462
Amortization of other assets		—	2
Loss on disposal of property and equipment		—	2
Share-based payments		77	61
Unrealized foreign exchange gain		(1,211)	(192)
Employee benefit liability		(509)	240
Accretion of interest expense		—	147
<b>Cash flows (used in) provided by operations before changes in working capital items</b>		<b>(2,307)</b>	<b>39</b>
<b>Changes in working capital items:</b>			
Accounts receivable		3,008	1,402
Inventories		875	(181)
Prepaid expenses and deposits		(304)	283
Other assets		44	47
Accounts payable and accrued liabilities		(1,074)	(2,715)
Warranty provision		(1)	(2)
Deferred revenues		3	(179)
		<b>2,551</b>	<b>(1,501)</b>
<b>Cash flows provided by (used in) operating activities</b>		<b>244</b>	<b>(1,306)</b>
<b>INVESTING ACTIVITIES</b>			
Goods held for lease		12	(75)
Additions to property and equipment		(2)	(357)
Disposal of property and equipment		—	7
Additions to intangible assets		(219)	(558)
<b>Cash flows used in investing activities</b>		<b>(209)</b>	<b>(983)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of credit facility		(984)	—
Payment of lease liabilities		(149)	(126)
Repayment of long-term debt		(4,000)	(5,000)
Proceeds from credit facility		4,000	—
Proceeds from long-term debt net of financing cost		1,928	4,000
<b>Cash flows provided by (used in) financing activities</b>		<b>795</b>	<b>(1,126)</b>
Effect of exchange rate fluctuations on cash and cash equivalents		33	(18)
<b>Net change in cash and cash equivalents</b>		<b>863</b>	<b>(3,433)</b>
Cash and cash equivalents, beginning of period		4,116	9,635
<b>Cash and cash equivalents, end of period</b>		<b>4,979</b>	<b>6,202</b>
<b>Cash and cash equivalents consist of:</b>			
Cash		1,350	1,113
Cash equivalents		3,629	5,089
<b>Interest and income taxes included in operating activities:</b>			
Interest paid		105	156
Income tax paid		1	1

*See accompanying notes to consolidated financial statements.*

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

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

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## **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, seat and/or other products. 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, manufacturing 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 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 11, 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 that include the same accounting policies used in the preparation of these financial statements.

During the second quarter ended September 30, 2020, the Corporation adjusted the presentation of its revenues in the unaudited interim consolidated statements of net loss and comprehensive loss to regroup all system sales together, to better reflect the future direction of the Corporation. Comparative figures have been reclassified to conform to the presentation adopted in the current period.

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### 3. INVENTORIES

	September 30, 2020	March 31, 2020
	\$	\$
Parts and components	5,070	5,303
Finished goods	586	1,228
	<b>5,656</b>	<b>6,531</b>

### 4. SHARE-BASED PAYMENT 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 March 31	—	80,000	470,000	240,000
Units redeemed for cash	—	—	(470,000)	(80,000)
<b>Balance as at September 30</b>	—	<b>80,000</b>	—	160,000
Units exercisable at end of period	—	80,000	—	160,000

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. CREDIT FACILITY

On July 24, 2020, the Corporation signed a definitive agreement with the National Bank of Canada ["NBC"] related to the availability of a line of credit amounting to \$4,000 for the ongoing operations and working capital of the Corporation. The balance as at September 30, 2020 was \$3,016. This line of credit is renewable annually and bears interest at prime rate plus 3.25% (5.70% as at September 30, 2020). The line of credit is secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.

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**6. LONG-TERM DEBT**

	<b>September 30 2020</b>	<b>March 31 2020</b>
	\$	\$
Loan with the Business Development Bank of Canada ["BDC"] in the amount of \$2,000, bearing interest at the BDC variable rate, currently 4.55%, and repayable in 24 monthly instalments of \$ 33 from July 2021 to May 2023 plus a final instalment of \$1,200 in June 2023. The loan is secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.	<b>2 000</b>	—
Loan with the National Bank of Canada ["NBC"], bearing interest at variable rate plus 2.25% (effective rate of 6.2%). This loan was reimbursed on July 2020.	—	4 000
Financing cost	<b>(72)</b>	
Current portion of long-term debt	<b>100</b>	4 000
	<b>1,828</b>	—

For the quarter and the six-month periods ended September 30, 2020, the interest expense on long-term debt charged to loss amounted to \$57 and \$105, respectively [\$172 and \$303 including an amount of \$103 and \$147 accounted for as an accretion expense for the quarter and the six-month periods ended September 30, 2019].

**7. EQUITY**

**7.1 Share capital**

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

	<b>2020</b>		<b>2019</b>	
	#	\$	#	\$
<b>Balance as at March 31 and September 30</b>	<b>175,950,573</b>	<b>62,762</b>	175,950,573	62,762

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**7.2 Share-based payments**

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

	2020		2019	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
<b>Balance as at March 31</b>	<b>14,533,289</b>	<b>0.24</b>	15,807,100	0.37
Options granted	—	—	1,990,000	0.14
Options cancelled	(405,000)	0.16	(630,000)	0.29
Options expired	(200,000)	0.42	(200,000)	0.47
<b>Balance as at September 30</b>	<b>13,928,289</b>	<b>0.24</b>	16,967,100	0.33
<b>Options exercisable at end of period</b>	<b>9,836,951</b>	<b>0.29</b>	13,087,683	0.37

For the quarter and the six-month periods ended September 30, 2020, the share-based compensation expense charged to loss amounted to \$31 and \$77, respectively [\$16 and \$61 for the quarter and the six-month periods ended September 30, 2019], with a corresponding amount recognized under share-based payments reserve. For the quarter and the six-month periods ended September 30, 2020, the cancellation and expiry of options resulted in a reclassification of \$76 [nil in 2019] from the share-based payments reserve to the deficit.

**7.3 Warrants**

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

	2020		2019	
	Number #	Exercise Price \$	Number #	Exercise Price \$
Expired on August 5, 2019	—	—	—	(a)
Expiring on December 22, 2022	2,000,000	(b)	2,000,000	(b)
<b>Balance</b>	<b>2,000,000</b>		2,000,000	

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- (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.
- (b) Exercise price corresponds to the volume weighted average price of 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, 2020 and 2019.

**8. SUPPLEMENTARY INFORMATION ON THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**

**8.1 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Cost of parts and components	<b>1,029</b>	2,063	<b>1,751</b>	4,341
Employee costs	<b>92</b>	268	<b>168</b>	615
Professional fees	—	30	—	50
Other	<b>491</b>	110	<b>572</b>	292
	<b>1,612</b>	2,471	<b>2,491</b>	5,298

**8.2 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	<b>480</b>	1,251	<b>895</b>	2,792
Professional fees	<b>117</b>	217	<b>181</b>	386
Advertising, travel and trade show	<b>27</b>	304	<b>60</b>	678
Amortization of property and equipment	<b>35</b>	75	<b>77</b>	96
Other	<b>244</b>	206	<b>276</b>	633
	<b>903</b>	2,053	<b>1,489</b>	4,585

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**8.3 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	290	750	558	1,488
Professional fees	254	244	359	479
Amortization of property and equipment and intangible assets	83	139	222	298
Other	125	253	473	547
	<b>752</b>	<b>1,386</b>	<b>1,612</b>	<b>2,812</b>

**8.4 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	286	368	590	995
Amortization of property and equipment and intangible assets	39	40	80	83
Tax credits	(32)	(40)	(32)	(33)
Investment tax credit reversal	—	115	—	—
Other	115	94	39	333
	<b>408</b>	<b>577</b>	<b>677</b>	<b>1,378</b>

**8.5 Government assistance**

For the quarter and six-month period ended September 30, 2020, the Corporation recognized government assistance amounting to \$994 and \$1,587 related to the ‘Canada Emergency Wage Subsidy’. Amounts of \$942 and \$1,489 were recorded as a reduction of operating expenses and an amount of \$98 was recognized as a reduction of intangible assets. An amount of \$786 was included in accounts receivable as at September 30, 2020.