

Consolidated Financial Statements

D-BOX Technologies Inc.

March 31, 2022

MANAGEMENT REPORT

The accompanying consolidated financial statements of **D-BOX Technologies Inc.** and all the information in the management's discussion and analysis ["**MD&A**"] are the responsibility of management.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ["**IFRS**"]. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the MD&A is consistent with that in the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and the MD&A and ensuring that management fulfills its financial reporting responsibilities. The Board discharges its responsibility primarily through its Audit Committee.

The Audit Committee is appointed by the Board and all its members are independent directors. The Committee meets periodically with management, as well as the independent auditors, to discuss internal control over financial reporting, audit matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements, the independent auditor's report and the MD&A. The Committee reports its findings to the Board for consideration when it approves the consolidated financial statements and the MD&A for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The independent auditor has full and free access to the Audit Committee.

Signed:

Sébastien Mailhot
President and Chief Executive Officer
Montréal, Canada

June 2, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

D-BOX Technologies Inc.

Opinion

We have audited the consolidated financial statements of D-BOX Technologies Inc. and its subsidiaries [the "Corporation"], which comprise the consolidated balance sheets as at March 31, 2022 and 2021, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of indicators of impairment of long-lived assets

As at March 31, 2022, the Corporation had \$5.2 million of long-lived assets, comprised of property, equipment and intangible assets.

As disclosed in Note 2, Summary of significant accounting policies, the Corporation assesses at each reporting date whether there are potential indicators of impairment. If there are events that indicate a risk of impairment of assets, management will perform an impairment assessment to determine their recoverable amount, defined as the highest of their fair value less costs to sell and their value in use.

Accordingly, we determined that auditing the Corporation's assessment of potential indicators of impairment of long-lived assets is a key audit matter due to the significance of the balance and subjectivity in evaluating management's significant assumptions, mainly projected revenue and EBITDA, all of which are sensitive to and affected by economic, industry and company-specific qualitative factors.

Other information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

How our audit addressed the key audit matter

To evaluate the Corporation's assessment of potential indicators of impairment of long-lived assets, our audit procedures included, among others:

- Obtaining an understanding of management's impairment assessment process.
- Assessing the completeness of external or internal factors that could be considered as indicators of impairment on the Corporation's long-lived assets.
- Comparing the significant assumptions used in the impairment test performed during the year ended March 31, 2021 to the most recent forecasts presented to the Board of directors.
- Comparing the forecasted revenues and EBITDA for the year ended March 31, 2022 to the actual results to assess the Corporation's ability to accurately forecast.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters to be the most significant in the audit of the consolidated financial statements of the current period, and they are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Patrick Bertrand-Daoust.

*Ernst + Young LLP*¹

Montréal, Canada
June 2, 2022

¹ CPA auditor, public accountancy permit no. A118785

D-BOX Technologies Inc.
CONSOLIDATED BALANCE SHEETS

As at March 31
[in thousands of Canadian dollars]

	Notes	2022 \$	2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		3,937	9,134
Accounts receivable	3	6,441	2,341
Derivative financial instruments	17	32	169
Inventories	4	5,163	4,547
Prepaid expenses and deposits		691	606
Current portion of finance leases receivable	7	97	31
		16,361	16,828
Non-current assets			
Property and equipment	5	3,051	3,762
Intangible assets	6	2,162	2,229
Finance leases receivable	7	379	401
Other assets		397	516
		22,350	23,736
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	11	1,060	2,898
Accounts payable and accrued liabilities	8	4,135	3,518
Warranty provision		70	55
Deferred revenues		1,094	675
Current portion of lease liabilities	10	223	318
Current portion of long-term debt	12	601	400
		7,183	7,864
Non-current liabilities			
Lease liabilities	10	483	700
Long-term debt	12	2,850	1,641
		10,516	10,205
Equity			
Share capital	13.1	66,227	66,227
Share-based payments reserve	13.2	1,220	2,190
Warrants reserve	13.3	1,355	1,355
Foreign currency translation reserve		(137)	(115)
Deficit		(56,831)	(56,126)
		11,834	13,531
		22,350	23,736

Contingency [note 18]

See accompanying notes.

On behalf of the Board,

Denis Chamberland
Director

Sébastien Mailhot
Director

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

For the years ended March 31
[in thousands of Canadian dollars, except share and per-share amounts]

	Notes	2022 \$	2021 \$
Revenues	14.1		
System sales		15,740	10,195
Rights for use, rental and maintenance		5,573	885
		21,313	11,080
Cost of goods sold excluding amortization	4	8,868	5,987
Amortization related to cost of goods sold		1,299	1,324
Cost of goods sold		10,167	7,311
Gross profit		11,146	3,769
Other expenses			
Selling and marketing		5,103	3,564
Administration		4,966	3,947
Research and development		2,319	1,920
Impairment of property and equipment	5	—	235
Impairment of intangible assets	6	179	—
Impairment (reversal) of finance leases receivable	7	—	(26)
Foreign exchange loss (gain)		50	(133)
		12,617	9,507
Loss before financial expenses (income) and income taxes		(1,471)	(5,738)
Financial expenses (income)			
Financial expenses	14.2	405	501
Interest income		(9)	(13)
		396	488
Loss before income taxes		(1,867)	(6,226)
Income taxes (recovery)	15	—	(34)
Net loss		(1,867)	(6,192)
<i>Items that will be reclassified to net loss in subsequent periods:</i>			
Foreign currency translation gain (loss)		(22)	399
Comprehensive loss		(1,889)	(5,793)
Basic and diluted net loss per share		(0.009)	(0.035)
Weighted average number of common shares outstanding	13.1	220,225,573	179,225,710

See accompanying notes.

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

For the years ended March 31
[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, 2020		62,762	2,149	—	(514)	(50,047)	14,350
Net loss		—	—	—	—	(6,192)	(6,192)
Foreign currency translation loss		—	—	—	399	—	399
Comprehensive loss		—	—	—	399	(6,192)	(5,793)
Issue of Class A common share and and warrants	13.1	4,212	—	1,544	—	—	5,756
Issue of compensation warrants to the underwriters	13.1	—	—	85	—	—	85
Transactions costs	13.1	(747)	—	(274)	—	—	(1,021)
Share-based payments	13.2	—	154	—	—	—	154
Cancellation of stock options	13.2	—	(113)	—	—	113	—
Balance as at March 31, 2021		66,227	2,190	1,355	(115)	(56,126)	13,531
Net loss		—	—	—	—	(1,867)	(1,867)
Foreign currency translation gain		—	—	—	(22)	—	(22)
Comprehensive loss		—	—	—	(22)	(1,867)	(1,889)
Share-based payments	13.2	—	192	—	—	—	192
Cancellation of stock options	13.2	—	(1,162)	—	—	1,162	—
Balance as at March 31, 2022		66,227	1,220	1,355	(137)	(56,831)	11,834

See accompanying notes.

D-BOX Technologies Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31
[in thousands of Canadian dollars]

	Notes	2022 \$	2021 \$
OPERATING ACTIVITIES			
Net loss		(1,867)	(6,192)
Items not affecting cash			
Amortization of property and equipment	5	1,124	1,530
Amortization of intangible assets	6	848	819
Amortization of financing costs		43	19
Impairment of property and equipment	5	—	235
Impairment of intangible assets	6	179	—
Impairment (reversal) of finance leases receivable	7	—	(26)
Loss on disposal of property and equipment		—	24
Gain on finance lease transactions	7	(295)	—
Share-based payments	13.2	192	154
Change in fair value of derivative financial instruments		137	(1,015)
Unrealized foreign exchange loss (gain)		(1)	406
Changes in employee benefit liability		—	(414)
Government assistance		(115)	—
Interest expense on lease liabilities		59	72
Accretion of interest expense on long-term debt	12	12	—
Cash flows generated from (used in) operations before changes in working capital items		316	(4,388)
Changes in working capital items:			
Accounts receivable		(4,110)	2,920
Inventories		(616)	1,984
Prepaid expenses and deposits		(85)	(116)
Other assets		119	113
Accounts payable and accrued liabilities		619	(418)
Warranty provision		15	(59)
Deferred revenues		419	(278)
		(3,639)	4,146
Cash flows used in operating activities		(3,323)	(242)
INVESTING ACTIVITIES			
Finances leases receivable payments		251	55
Additions to property and equipment		(415)	(13)
Additions to intangible assets		(960)	(467)
Cash flows used in investing activities		(1,124)	(425)
FINANCING ACTIVITIES			
Repayment of credit facility		(1,838)	(1,102)
Payment of lease liabilities		(376)	(383)
Repayment of long-term debt		(300)	(4,000)
Proceeds from credit facility		—	4,000
Proceeds from long-term debt, net of financing costs paid		1,770	2,022
Proceeds from issuance of share and warrants		—	5,756
Transaction costs on issue of shares and warrants		—	(653)
Cash flows (used in) generated from financing activities		(744)	5,640
Effect of exchange rate fluctuations on cash and cash equivalents		(6)	45
Net change in cash and cash equivalents		(5,197)	5,018
Cash and cash equivalents, beginning of year		9,134	4,116
Cash and cash equivalents, end of year		3,937	9,134
Cash and cash equivalents consist of:			
Cash		3,937	1,768
Cash equivalents		—	7,366
Interest and income taxes included in operating activities:			
Interest paid		227	303
Income taxes paid		—	(34)

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

[Amounts are in thousands of Canadian dollars, except share, warrant, option, 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 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 based on its one operating segment which is the design, manufacture and sale of cutting-edge motion systems.

The consolidated financial statements were approved by the Corporation’s Board of Directors on June 2, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are measured at fair value. The significant accounting policies are summarized below.

During the year ended March 31, 2022, the Corporation adjusted the presentation of the comparative consolidated statements of net loss and comprehensive loss to reclassify certain encoding costs of haptic coding from selling and marketing expenses to cost of goods sold to better reflect the nature of these costs, and to conform with the current year presentation.

2.2 Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, D-BOX USA Inc. and D-BOX Entertainment Technology (Shanghai) Co. Ltd., which use the same accounting policies and fiscal year-end as the Corporation. All intercompany balances and transactions have been eliminated on consolidation.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.3 Significant judgments and estimates

The preparation of consolidated financial statements requires the Corporation's management to make judgments, estimates and assumptions that could affect the amounts of assets and liabilities at the balance sheet date and the amounts of revenues and expenses.

2.3.1 Judgments

In connection with the application of the Corporation's accounting policies, management made the following judgment which had a material impact on the carrying amount of assets and liabilities reported in the consolidated financial statements.

2.3.1.1 Leases

The Corporation is involved in the rental of motion systems as a lessor. The Corporation has determined, based on its assessment of the terms and conditions of agreements, such as lease term and minimum lease payments, that it may or may not retain substantially all the risks and rewards of ownership of the systems for its lease contracts. Accordingly, the Corporation has accounted for these agreements as operating or finance leases, as deemed appropriate.

2.3.1.2 Intangible assets

Development costs related to D-BOX motion technology are capitalized in accordance with the accounting policy described in note 2.13. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and forecasted revenues.

2.3.2 Estimates

The underlying estimates and assumptions are based on past experience and other factors deemed reasonable in view of the circumstances. Accordingly, they provide a basis for judgments made in determining the carrying amounts of assets and liabilities.

The final amounts appearing in the Corporation's future consolidated financial statements may differ from the amounts currently estimated. These estimates and assumptions are reviewed on an ongoing basis. The main estimates used concern the impairment of non-financial assets as well as the provision for expected credit losses.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.3.2.1 Impairment of non-financial assets

Impairment of non-financial assets exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's forecast and strategic plan which assumes a gradual return to pre-pandemic operations and revenues by mid fiscal 2024. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation.

2.3.2.2 Provision for expected credit losses of trade accounts receivables

The Corporation uses a provision matrix to calculate expected credit losses ["ECLs"] for trade accounts receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns [i.e., by geography, customer type and rating, and coverage by credit insurance]. The provision matrix is initially based on the Corporation's historical observed default rates. The Corporation will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Corporation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Corporation's trade accounts receivables is disclosed in note 3.

2.4 Foreign currency translation

The Corporation's consolidated financial statements are expressed in Canadian dollars, which is its functional currency.

2.4.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate at the date of the transaction. At the end of each reporting period:

- Foreign currency monetary assets and liabilities are translated using the closing rate. Resulting exchange differences are recognized in income (loss) for the year;
- Foreign currency non-monetary assets and liabilities are recognized using the historical rate at the date of the transaction.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.4.2 Translation of the subsidiary's financial statements

The functional currency of the subsidiaries is the US dollar for D-BOX USA Inc. and the RMB for D-BOX Entertainment Technology (Shanghai) Co. Ltd. The balance sheet is translated into Canadian dollars at the closing rate, that is, the exchange rate at the end of the reporting period. Income (loss) and cash flows are translated at the average exchange rates. Differences resulting from this translation are recorded as a foreign currency translation gain (loss) in other comprehensive income (loss).

On the sale of a foreign entity, the translation differences previously recognized in other comprehensive income (loss) are recognized in the consolidated statements of net loss and comprehensive loss.

2.5 Cash and cash equivalents

Cash consists of cash with financial institutions. Cash equivalents consist of investments which are readily convertible into a known amount of cash and which have an original maturity of three months or less.

2.6 Inventories

Finished goods, parts and components are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory impairment charge may be reversed when the circumstances that gave rise to the impairment no longer exist. The cost of finished goods includes the cost of goods and components, labour costs and a portion of manufacturing overhead costs, based on the Corporation's normal operating capacity.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2022

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

2.7 Property and equipment and intangible assets

Property and equipment, intangible assets, and other assets are recorded at cost. These assets are amortized over their estimated useful lives using the following methods and rates:

Nature of amortized asset	Method	Period
Property and equipment		
Goods held for lease	Straight-line	10 years
Furniture and fixtures	Straight-line	7 years
Machinery, equipment, computer hardware and trade show stands	Straight-line	3 to 7 years
Buildings and leasehold improvements	Straight-line	Lease term
Intangible assets		
Patents	Straight-line	Not exceeding 10 years
D-BOX motion technology*	Straight-line	3 to 7 years
Software	Straight-line	4 years

* Internally generated intangible assets.

For finite-life tangible and intangible assets, the Corporation assesses at each reporting date whether there is an indication that the carrying amount may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the cash generating unit's value in use or fair value less costs of disposal. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

A previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of loss and comprehensive loss.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.8 *Warranty provision*

A provision for potential warranty claims is recorded upon revenue recognition based on past experience and warranties offered by the Corporation.

2.9 *Share-based payment plan*

Compensation expense for options granted to employees and directors under the Corporation's share-based payment plan is recognized over their vesting period. Such share-based payment expense is determined under the fair value method using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options together with the related portion previously credited to the share-based payment reserve is credited to share capital.

For the share unit plans, the fair value of the amount payable to employees and directors is recognized as an expense, with a corresponding increase in liabilities, over the period that the employees and directors unconditionally become entitled to payment. The liability is re-measured at each reporting date. Any changes in the fair value of the liability are recognized in income (loss) as employee costs or in director fees.

2.10 *Leases*

The right-of-use asset and lease liability are recognized at the lease commencement date. Certain exemptions apply for short-term leases and leases of low-value assets.

Right-of-use of assets

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs 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 assets are periodically reduced by amortization expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are 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.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

[Amounts are in thousands of Canadian dollars, except share, warrant, option, 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. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs. 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 accretion of interest and reduced for 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 substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise, or not to exercise, the option to renew.

The Corporation as a lessor

The Corporation classifies each lease related to commercial theatres motion systems either as an operating or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

For commercial theatre finance leases, the Corporation recognizes, at the commencement of the lease term, a finance lease receivable in the consolidated balance sheets at an amount equals to the fair value of the leased asset, or if lower, the present value of the minimum lease payments. Finance lease income, included within Right for use, rental and maintenance revenue, is recognized each year in a manner that reflect a constant rate of return on the finance lease asset.

The operating lease agreements for which the Corporation acts as lessor are related to the rental of motion systems for commercial theaters. These contracts are generally for a period between 5 to 7 years. For these contracts, the Corporation recognizes operating lease payments as income under Right for use, rental and maintenance as they become due under the term of the agreement, that is, on ticket sales related to commercial usage of motion systems. In the event that the performance of a seat falls short of expectations, the Corporation has the contractual right to recover these assets which could then be sold or rented to another customer.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.11 Revenue recognition

The Corporation's revenues are generated from the sale or lease of motion systems to entertainment market and simulation and training market clients.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Discounts are estimated based on the most likely amount method and using contractual terms with customers.

Revenue from the sale of motion systems is recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when [or as] the entity satisfies a performance obligation.

Revenues arising from sale of motion systems are recognized in income (loss) when the customer obtains control over the system, which generally occurs upon delivery. The cost of systems sold is recognized immediately in income (loss) as cost of goods sold. When the criteria for revenue recognition are not fully met, revenues are recognized in income (loss) as they become due under the terms of the arrangement. In these circumstances, system costs are shown in the consolidated balance sheets under other assets.

Revenues arising from operating leases for motion systems are recognized in income as they become due under the terms of the arrangement, that is, on ticket sales by the commercial theatre for motion system use. System costs are recorded in property and equipment under goods held for lease.

Revenues arising from motion technology use and maintenance agreements are recognized in income (loss) over the period of service, that is, on commercial usage of motion systems. Costs relating to maintenance are recorded as cost of goods sold as incurred.

In addition to the above general principles, the Corporation applies specific revenue recognition for bill and hold transactions. When customers request a bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and made ready for shipment. These goods are shipped within a specified period of time and are segregated from other inventory, the control is transferred to the customer, and the terms and collection experience on the related billings are consistent with all other sales.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.12 *Encoding costs*

The costs for encoding movies and games that support D-BOX motion technology are expensed as incurred and included in cost of goods sold or in selling and marketing expenses depending on their function.

2.13 *Research and development costs*

Research costs are charged to income (loss) in the year of expenditure. Development costs related to the D-BOX motion technology are capitalized when the Corporation can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete, and the asset is available for use. During the period of development, the asset is tested for impairment annually.

2.14 *Government assistance and investment tax credits*

Government assistance and investment tax credits are recognized when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain such assistance. The Corporation incurs research and development expenses that are eligible for investment tax credits.

Recognized government assistance and refundable investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by tax authorities.

Government assistance and investment tax credits are recognized as a reduction of the cost of the related assets or expenses in the year in which the expenditures are made when management deems that there is reasonable assurance that the conditions for government assistance or investment tax credits have been met.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

2.15 Income taxes

The Corporation follows the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that reflect the tax consequences that would follow from the way that the Corporation expects to recover or settle the carrying amount of its assets and liabilities in the periods in which the deferred tax assets and liabilities are expected to be realized or settled.

Deferred tax assets are recognized to the extent that it is probable that the Corporation's future taxable income will be sufficient to permit the recovery of such assets.

Deferred tax assets and liabilities are accounted for directly through income (loss), other comprehensive income (loss) or equity, based on the classification of the item to which they relate.

2.16 Earnings (loss) per share

Basic earnings (loss) per common share are calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share are calculated taking into account the dilution that could result if stock options for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the fiscal year or the date of issue. The stock options and warrants were not included in the calculation of diluted loss per share because the Corporation sustained losses and including stock options and warrants would have been antidilutive.

2.17 Financial instruments

2.17.1 Classification, measurement and recognition

A financial asset is classified and subsequently measured at amortized cost; fair value through other comprehensive income ["FVTOCI"]; or fair value through profit and loss ["FVTPL"]. The classification is based on two criteria: the Corporation's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding [the "SPPI criterion"]. The Corporation's financial assets are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion and are classified and subsequently measured at amortized cost.

The financial assets classified and subsequently measured at amortized cost consist of cash, trade accounts receivable and deposits.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

A financial liability is classified and subsequently measured at amortized cost or FVTPL. The Corporation's financial liabilities measured at amortized cost consist of trade accounts payable, accrued liabilities [excluding provisions], credit facility, and long-term debt are classified as other financial liabilities. They are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently carried at amortized cost using the effective interest method.

The Corporation's financial liability at FVTPL comprise derivative financial instruments. Derivative financial instruments consist of foreign exchange contracts [note 17.3] and are accounted for at fair value with changes in fair value recognized in the consolidated statements of net loss and comprehensive loss under "Foreign exchange loss (gain)". Derivative financial instruments are recognized as financial assets where fair value is positive and as financial liabilities where it is negative.

Derivative financial instruments are measured at fair value in the consolidated balance sheets and are grouped into the three levels of the fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

The fair value of derivative financial instruments is determined using the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as period-end foreign exchange rates [Level 2 inputs].

2.17.2 Impairment of financial assets measures at amortized cost

The Corporation applies the simplified approach to measuring expected credit losses ["ECL"] which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade accounts receivable and finance leases receivable have been grouped based on shared risk characteristics and the days past due. The Corporation then applies an ECL based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Trade accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the debtor enters bankruptcy, is in significant financial difficulty or has failed to make contractual payments, unless the Corporation has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2022

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

3. ACCOUNTS RECEIVABLE

	2022	2021
	\$	\$
Trade accounts receivable	6,215	2,067
Allowance for expected credit losses	(166)	(253)
	6,049	1,814
Investment tax credits	93	112
Commodity taxes receivable	79	112
Insurance claim receivable	220	—
Government assistance receivable	—	303
	6,441	2,341

The following table is the movement in the allowance for expected credit losses of trade accounts receivable:

	2022	2021
	\$	\$
Balance, beginning of year	253	332
Addition (reversal)	(40)	(79)
Write-off	(47)	—
	166	253

Information about the credit exposure is disclosed in note 17.2.

4. INVENTORIES

	2022	2021
	\$	\$
Parts and components ⁽¹⁾	4,193	3,463
Finished goods	970	1,084
	5,163	4,547

⁽¹⁾ As at March 31, 2022, parts and components include \$1,320 of deposits related to the purchase of parts and components which cannot be redeemed for cash.

Inventories charged to cost of goods sold amounted to \$6,731 in 2022 [\$4,129 in 2021].

During fiscal 2022, an impairment charge of \$nil [\$462 in 2021] was recognized in connection with certain inventories.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

5. PROPERTY AND EQUIPMENT

Cost	2021	Additions	Disposals and write-off	Other changes ⁽²⁾	2022
	\$	\$	\$	\$	\$
Goods held for lease	13,202	18	—	(39)	13,181
Furniture and fixtures	370	—	—	—	370
Machinery and equipment	711	—	—	—	711
Computer hardware	1,961	377	—	—	2,338
Trade show stands	1,211	—	—	(4)	1,207
Buildings and leasehold improvements ⁽¹⁾	3,000	20	(452)	—	2,568
	20,455	415	(452)	(43)	20,375

Accumulated amortization	2021	Amortization	Disposals and write-off	Other changes ⁽²⁾	2022
	\$	\$	\$	\$	\$
Goods held for lease	10,758	574	—	(33)	11,299
Furniture and fixtures	322	26	—	—	348
Machinery and equipment	630	45	—	—	675
Computer hardware	1,777	120	—	—	1,897
Trade show stands	1,212	—	—	(6)	1,206
Buildings and leasehold improvements ⁽¹⁾	1,994	359	(452)	(2)	1,899
	16,693	1,124	(452)	(41)	17,324
Net carrying amount	3,762				3,051

⁽¹⁾ As at March 31, 2022, building and leasehold improvements include right-of-use assets related to one lease agreement having a total cost and accumulated amortization of \$1,113 and \$464, respectively.

⁽²⁾ Other changes relate to foreign exchange gain (loss).

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

Cost	2020	Additions	Disposals and	Other	2021
	\$	\$	write-off	changes ⁽³⁾	\$
			\$	\$	
Goods held for lease	14,185	—	(231)	(752)	13,202
Furniture and fixtures	367	3	—	—	370
Machinery and equipment	710	1	—	—	711
Computer hardware	1,964	—	—	(3)	1,961
Trade show stands	1,301	—	—	(90)	1,211
Buildings and leasehold improvements ⁽²⁾	3,016	9	—	(25)	3,000
	21,543	13	(231)	(870)	20,455

Accumulated amortization	2020	Amortization	Disposals and	Impairment	Other	2021
	\$	\$	write-off	\$	changes ⁽³⁾	\$
			\$	\$	\$	
Goods held for lease	10,770	698	(207)	235 ⁽¹⁾	(738)	10,758
Furniture and fixtures	294	28	—	—	—	322
Machinery and equipment	583	47	—	—	—	630
Computer hardware	1,617	160	—	—	—	1,777
Trade show stands	1,038	238	—	—	(64)	1,212
Buildings and leasehold improvements ⁽²⁾	1,652	359	—	—	(17)	1,994
	15,954	1,530	(207)	235	(819)	16,693
Net carrying amount	5,589					3,762

⁽¹⁾ As at March 31, 2021, the Corporation performed an assessment of the recoverable amounts of the goods held for lease related to motion systems for commercial theatres. This analysis was based on discounting the anticipated cash flows related to these leases over the remaining useful lives of the assets, taking into account the effect of the COVID-19 outbreak on the anticipated cash flows. As a result, the Corporation recorded an impairment charge of \$235, which is the net carrying value of these assets as management determined that the recoverable amount using expected forecasted cash flows was nil.

⁽²⁾ As at March 31, 2021, building and leasehold improvements include right-of-use assets related to one lease agreement having a total cost and accumulated amortization of \$1,432 and \$456, respectively.

⁽³⁾ Other changes relate to foreign exchange gain (loss).

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

The allocation of amortization to the various items in the statements of net loss and comprehensive loss is as follows:

	2022	2021
	\$	\$
Cost of goods sold	623	745
Selling and marketing	109	365
Administration	389	417
Research and development	3	3
	1,124	1,530

6. INTANGIBLE ASSETS

Cost	2021	Additions	Impairment	2022
	\$	\$	\$	\$
Patents	2,310	78	—	2,388
D-BOX motion technology *	4,506	882	—	5,388
Software	1,379	—	—	1,379
	8,195	960	—	9,155

Accumulated amortization	2021	Amortization	Impairment ⁽¹⁾	2022
	\$	\$	\$	\$
Patents	1,948	141	—	2,089
D-BOX motion technology *	2,684	676	179	3,539
Software	1,334	31	—	1,365
	5,966	848	179	6,993
Net carrying amount	2,229			2,162

* Internally generated intangible assets.

⁽¹⁾ As at March 31, 2022, the Corporation reviewed its projects under development, taking into account the effect of the ongoing COVID-19 outbreak on its future plans and management's intention to dedicate financial resources to complete these projects. Consequently, the Corporation recorded an impairment charge of \$179, which is the net carrying amount of this asset as management determined that the recoverable amount using expected forecasted cash flows was nil.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

Cost	2020	Additions	Disposals and write-off	2021
	\$	\$	\$	\$
Patents	2,168	142	—	2,310
D-BOX motion technology *	4,689	325	(508)	4,506
Software	1,379	—	—	1,379
	8,236	467	(508)	8,195

Accumulated amortization	2020	Amortization	Disposals and write-off	2021
	\$	\$	\$	\$
Patents	1,801	147	—	1,948
D-BOX motion technology *	2,612	580	(508)	2,684
Software	1,242	92	—	1,334
	5,655	819	(508)	5,966
Net carrying amount	2,581			2,229

* Internally generated intangible assets.

The allocation of amortization to the various items in the statement of net loss and comprehensive loss is as follows:

	2022	2021
	\$	\$
Cost of goods sold	676	579
Administration	30	92
Research and development	142	148
	848	819

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

7. FINANCE LEASES RECEIVABLE

The following table presents the reconciliation between the opening and closing balance of the finance leases receivable:

	2022	2021
	\$	\$
Balance, beginning of the year	432	461
Additions	295	—
Lease payments	(251)	(27)
Impairment	—	26
Translation adjustment	—	(28)
Balance, end of year	476	432
Current	97	31
Non-current	379	401

Lease payments receivable for the next years are as follows:

	\$
2023	97
2024	121
2025	121
2026	121
2027	121
Beyond 5 years	408
Undiscounted lease payments	989
Less: unearned finance income	(487)
Less: allowance for expected credit losses	(26)
Finance leases receivable as at March 31, 2022	476

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2022

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021
	\$	\$
Trade accounts payable	1,700	1,173
Accrued liabilities	2,178	2,105
Credit facility ⁽¹⁾	72	15
Income taxes	185	225
	4,135	3,518

⁽¹⁾ As at March 31, 2022, the Corporation had a bank credit facility amounting to \$425 [\$426 as at March 31, 2021] secured by a senior deposit in the amount of \$200 accessible in the form of cash advances on credit cards, which charged variable interest rates ranging from 16.49% to 19.15%.

9. 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 settlement date. RSU share units vest three years after the grant date and are redeemed for cash or shares at the vesting date or under certain conditions. 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. Any change in fair value is recognized in the consolidated statements of net loss and comprehensive loss.

As at March 31, 2022, the Corporation had 80,000 DSU Share Units issued and exercisable [80,000 as at March 31, 2021].

For the year ended March 31, 2022, the share-based payment expense credited to income against employee costs amounted to \$0 [\$ (4) in 2021]. As at March 31, 2022, an amount of \$8 was accounted for in accounts payable and accrued liabilities [\$9 in 2021].

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

10. LEASE LIABILITIES

The incremental borrowing rate applied to lease liabilities recognized as at March 31, 2022 is 6.2% [6.2% as at March 31, 2021]. The following table presents the reconciliation between the opening and closing balances of the lease liabilities:

	2022	2021
	\$	\$
Balance, beginning of year	1,018	1,329
Lease payments	(376)	(373)
Interest expense on lease liabilities	59	72
Translation adjustment	5	(10)
Balance, end of year	706	1,018
Current	223	318
Non-current	483	700

The expense related to short-term leases and low-value assets leases during the year ended March 31, 2022 was \$178 [\$119 in 2021].

Lease payments for the next years are as follows:

	\$
2023	259
2024	264
2025	247
	770
Less: interest	(64)
	706

11. CREDIT FACILITY

On July 24, 2020, the Corporation signed an 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 of March 31, 2022 was \$1,060. This line of credit is renewable annually and bears interest at prime rate plus 3.25% [5.95% as of March 31, 2022]. The line of credit is secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary. As at March 31, 2022, the Corporation was in compliance with the financial ratios required under the facility.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

12. LONG-TERM DEBT

	March 31, 2022 \$	March 31, 2021 \$
Loan with the Business Development Bank of Canada [“BDC”] amounting to \$2,000, bearing interest at the banks prime rate [4.80% as of March 31, 2022] plus 1.75% and repayable in 59 monthly capital installments of \$33 from July 2021 to May 2026 plus a final installment of \$34 in June 2026. The loan is secured by second ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.	1,700	2,000
Loan with the Développement économique de l’agglomération de Longueuil, in the amount of \$100, bearing interest at the fixed rate of 6% payable monthly, and principal repayable in October 2022.	100	100
Loan with the National Bank of Canada [“NBC”] amounting to \$1,000 for ongoing operations and working capital of the Corporation, bearing interest at the fixed rate of 4% payable monthly, and principal repayable in 24 monthly installments of \$8 from the 13 th month after disbursement and the balance at maturity in 36 months. The loan is secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary and is guaranteed by BDC.	1,000	—
Loan with the Economic Development Agency of Canada amounting to \$846 for ongoing operations and working capital of the Corporation, repayable in 60 monthly capital installments of \$14 from January 2023 to December 2027. The loan does not bear interest [effective interest rate of 4%] and is not secured. The discounting is recognized as government assistance and recorded as a reduction of administration expenses [note 14.4].	743	—
	3,543	2,100
Less: Financing costs	92	59
Less: Current portion of long-term debt	601	400
	2,850	1,641

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

Debt payments for the next years are as follows:

	\$
2023	601
2024	669
2025	1,411
2026	569
2027	269
Others	127
	3,646
Less: discounting	(103)
	3,543

During the year ended March 31, 2022, the interest expense on long-term debt charged to net loss amounted to \$128, including an amount of \$12 accounted for as an accretion of interest expense [\$57, including an amount of \$0 accounted for as an accretion expense for the year ended March 31, 2021].

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2022

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

13. EQUITY

13.1 Share Capital

13.1.1 Authorized

Unlimited number of Class A common shares without par value, voting and participating.

Class B preferred shares, issuable in series, ranking senior to Class A common shares. The directors are entitled to determine the number of shares per series and their characteristics [rights, privileges and restrictions].

13.1.2 Issued

Changes in Class A common shares of the Corporation are shown in the following table:

	2022		2021	
	#	\$	#	\$
Balance at beginning of year	220,225,573	66,227	175,950,573	62,762
Issue of Class A common shares, net of transaction costs	—	—	44,275,000	3,465
Balance at end of year	220,225,573	66,227	220,225,573	66,227

On March 4, 2021, the Corporation completed the public offering announced on February 25, 2021 and issued 44,275,000 units at a price of \$0.13 per unit for aggregate gross proceeds of \$5,756. Each unit is comprised of one Class A common share of the Corporation and one Class A common share purchase warrant entitling the holder to purchase one Class A common share of the Corporation at an exercise price of \$0.16 until March 4, 2023. In connection with this offering, the Corporation also issued compensation warrants to the underwriters to purchase up to 2,572,441 Class A shares of the Corporation at an exercise price of \$0.15 until March 4, 2023.

The fair values of the Class A common shares, Class A common share purchase warrants and compensation warrants to the underwriters were \$4,212, \$1,544 and \$85, respectively. Transaction costs amounting to \$1,021 were recorded as a reduction of \$747 of the fair value of the Class A common shares and a reduction of \$274 of the Class A common share purchase warrants.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

13.2 Share-based Payment Plan

In 2015, the Board of Directors established a stock option plan [the “2015 Plan”]. The material terms and conditions of the 2015 Plan are as follows:

- [i] The maximum number of Class A common shares in respect of which options may be outstanding under the 2015 Plan and under all of the Corporation’s other share-based compensation agreements cannot exceed ten percent of the issued and outstanding Class A common shares of the Corporation at any time;
- [ii] No option may be granted to any optionee under the 2015 Plan unless the aggregate number of Class A common shares: (a) issued to “insiders” of the Corporation within any one-year period; and (b) issuable to “insiders” of the Corporation at any time under the 2015 Plan or combined with all other share-based compensation agreements of the Corporation, does not exceed ten percent of the total number of issued and outstanding Class A common shares;
- [iii] The exercise price of options is determined by the Board of Directors at the time the options are granted, but may not be less than the weighted-average trading price of the Class A common shares of the Corporation on the Toronto Stock Exchange for the five trading days immediately preceding the day on which an option is granted;
- [iv] At the time of granting an option, the Board of Directors, in its discretion, may set a “vesting schedule”, that is, one or more dates from which an option may be exercised in whole or in part. In such event, the Board of Directors will not be under any obligation to set a “vesting schedule” in respect of any other option granted under the 2015 Plan. If the Board of Directors does not set a “vesting schedule” at the time of granting an option, the option will be deemed to vest over a period of 36 months in three equal instalments, with one-third of the option vesting at twelve-month intervals;
- [v] Options expire on the date set by the Board of Directors at the time the option is granted, which date may not be more than 10 years after the grant date.

As at March 31, 2022, a maximum of 22,022,557 options [22,022,557 in 2021] were issuable.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

The following tables summarize the changes in the Corporation's stock option plan and information on options outstanding as at March 31:

	2022		2021	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Balance, beginning of year	12,582,034	0.18	14,533,289	0.24
Options granted	2,370,000	0.12	3,382,500	0.09
Options cancelled	(1,840,000)	0.17	(5,118,755)	0.28
Options expired	(421,000)	0.62	(215,000)	0.43
Balance, end of year	12,691,034	0.15	12,582,034	0.18

Options outstanding			Options exercisable		
Range of exercise prices \$	Number of options #	Weighted average remaining life [in years]	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
0.08 – 0.12	7,070,500	3.99	0.10	2,157,833	0.08
0.13 – 0.20	4,092,534	2.86	0.17	3,699,204	0.18
0.21 – 0.32	731,000	1.09	0.27	731,000	0.27
0.33 – 0.42	397,000	4.25	0.33	397,000	0.33
0.43 – 0.65	400,000	4.71	0.53	400,000	0.53
	12,691,034	3.49	0.15	7,385,037	0.19

The fair value of the options granted during fiscal 2022 and 2021 was estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions for 2022: 1.73% weighted average risk-free interest rate [0.91% in 2021]; no dividends; 98.15% weighted average volatility factor of the expected market price of the Corporation's shares [95.19% in 2021]; \$0.11 weighted average share price [\$0.09 in 2021]; and a 5 year expected weighted average option life [5 years in 2021]. 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 forfeiture rate used in 2022 was 9.14% [8.34% in 2021]. The weighted average of the estimated fair values at the grant date of the options awarded during the year is \$0.08 per option [\$0.07 per option in 2021], amortized through loss over the vesting periods of the options. For the year ended March 31, 2022, the share-based payment expense charged to income amounted to \$192 [\$154 in 2021] with a corresponding amount recognized under the share-based payments reserve.

For the year ended March 31, 2022, the cancellation and expiry of options resulted in a reclassification of \$1,162 from the share-based payment reserve to the deficit [\$113 in 2021].

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

13.3 Warrants

Warrants for the year ended March 31, 2022 and 2021 are summarized in the following table:

	2022		2021	
	Number #	Exercise price \$	Number #	Exercise price \$
Expiring on December 22, 2022	2,000,000	(a)	2,000,000	(a)
Expiring on March 4, 2023	2,572,441	0.15	2,572,441	0.15
Expiring on March 4, 2023	44,275,000	0.16	44,275,000	0.16
Balance, end of year	48,847,441		48,847,441	

(a) 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 had vested as at March 31, 2022 and 2021.

**14. SUPPLEMENTARY INFORMATION ON THE
CONSOLIDATED STATEMENTS OF NET LOSS AND
COMPREHENSIVE LOSS**

14.1 Revenues

Revenues are geographically allocated by country based on the client's location as follows:

	2022 \$	2021 \$
United States	8,209	2,973
Europe	5,557	4,355
Canada	4,809	2,558
Asia	1,776	871
South America	538	60
Oceania	333	162
Africa	91	101
	21,313	11,080

For the year ended March 31, 2022, rental revenue from operating leases included under Right for use, rental and maintenance amount to \$1,252 [\$166 in 2021].

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2022

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

14.2 Financial expenses

The key components of financial expenses are detailed as follows:

	2022	2021
	\$	\$
Interest expense on long-term debt	128	57
Interest expense on credit facility	97	197
Interest expense on lease liabilities	59	72
Amortization of financing costs	43	19
Other interest and bank charges	78	156
	405	501

14.3 Key management personnel compensation and employee benefits

The management personnel comprise members of the Board of Directors and key senior management of the Corporation and its subsidiaries. Their compensation is as follows:

	2022	2021
	\$	\$
Salaries and short-term benefits	1,718	1,346
Share-based payments	144	104
	1,862	1,450

Employee benefit expenses [including directors] for the year ended March 31, 2022 amount to \$8,827 [\$6,166 for the year ended March 31, 2021].

14.4 Government assistance

For the year ended March 31, 2022, the Corporation recognized government assistance from various governmental entities in the amount of \$1,265 [\$2,809 for the year ended March 31, 2021]. Government assistance received on capital expenditures and deducted from the carrying amount of the internally generated intangible asset, D-BOX motion technology, amounted to \$72 for the year [\$132 for the year ended March 31, 2021]. The remaining funding has been recorded as a reduction of the related expenses as follows:

	2022	2021
	\$	\$
Cost of goods sold excluding amortization	161	370
Selling and marketing	387	914
Administration	396	686
Research and development	249	707
	1,193	2,677

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

15. INCOME TAXES

15.1 Current income taxes

The income taxes reported in the consolidated statements of net loss and comprehensive loss stem from the accounts of the U.S. subsidiary. The reconciliation between the income tax expense [or recovery] and the income tax amount computed by applying Canadian statutory income tax rates was as follows:

	2022	2021
	%	%
Income tax recovery using Canadian statutory rates	26.5	26.5
Change in income taxes resulting from:		
Effect of difference in foreign tax rate	0.8	0.2
Non-deductible expenses and other differences	7.1	(1.0)
Unrecognized tax benefits of operating losses and other deductions	(34.4)	(25.2)
	0.0	0.5

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

15.2 Deferred income taxes

The key components of the Corporation's deferred income tax asset and liability are as follows:

	2022		2021	
	Asset	Liability	Asset	Liability
<i>Recognised in profit and loss</i>				
Net operating loss carry-forwards	13,655	—	12,832	—
Research and development expenditures	2,504	—	2,416	—
Carrying amounts of property and equipment below tax bases	32	(458)	—	(389)
Share issue costs and other differences	37	—	41	—
Derivative financial instruments	—	(8)	—	(45)
<i>Recognised in equity</i>				
Share issuance costs	271	—	271	—
Total deferred tax	16,499	(466)	15,560	(434)
Unrecognized deferred income tax assets	(16,033)	—	(15,126)	—
	466	(466)	434	(434)

The Corporation has accumulated net operating loss carry-forwards for federal, Québec, United States and China tax purposes, which are available to reduce future taxable income. These loss carry-forwards expire as follows:

	Federal	Québec	United States	China
	\$	\$	\$	\$
2026	1,760	1,705	—	—
2027	1,684	1,649	—	—
2028	4,350	4,347	—	—
2029	3,969	3,981	—	—
2030	4,789	4,802	—	—
2031	4,441	4,445	—	—
2032	4,002	4,002	1,380	—
2033	1,243	785	72	—
2034	280	280	—	—
2035	—	—	—	—
2036	2,150	2,211	—	—
2037	2,803	2,032	—	—
2038	1,595	1,612	—	602
2039	1,669	1,730	—	466
2040	3,708	3,690	—	9
2041	7,861	7,862	—	55
2042	2,623	2,798	—	80
Indefinite	—	—	348	—
	48,927	47,931	1,800	1,212

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

The Corporation has approximately \$8,066 in scientific research and experimental development expenditures for federal tax purposes and \$11,216 for Québec tax purposes available to reduce taxable income in future years and be carried forward over an unlimited period. Finally, the non-recoverable portion of federal investment tax credits may be applied against future income taxes payable. These investment tax credits expire as follows:

	\$
2022	60
2023	45
2024	91
2025	159
2026	123
2027	132
2028	118
2029	217
2030	154
2031	177
2032	188
2033	95
2034	103
2035	67
2036	124
2037	135
2038	52
2039	66
2040	94
2041	99
2042	85
	<u>2,384</u>

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

16. CAPITAL MANAGEMENT

The Corporation's capital includes equity, long-term debt as well as the undrawn portion of its credit facilities.

	2022	2021
	\$	\$
Undrawn portion of credit facilities <i>[notes 8 and 11]</i>	3,293	1,543
Credit facility	1,060	2,898
Long-term debt	3,543	2,100
Equity	11,834	13,531
	19,730	20,072

Management's strategy and priority is preserving capital to ensure the sustainability of the business. To maximize its ongoing technology development and marketing initiatives, the Corporation does not pay any dividends.

17. FINANCIAL INSTRUMENTS

17.1 Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk due to fluctuations in interest rates on cash and cash equivalents that earn interest at market rates and its variable interest rate on the current portion of long-term debt. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk. On an annual basis, a 1% change in interest rates would have had a \$22 impact on net loss and comprehensive loss for the year ended March 31, 2022 [impact of \$57 for the year ended March 31, 2021].

The Corporation manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations.

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

17.2 Credit risk

The Corporation is exposed to credit losses arising from payment defaults by third parties. The Corporation evaluates the creditworthiness of its clients to limit the amount of credit extended, where appropriate, and establishes an allowance for expected credit losses sufficient to cover probable and reasonably estimated losses. Furthermore, the Corporation generally insures its accounts receivable balances with Export Development Canada. As of March 31, 2022, five clients accounted for 40% of total trade accounts receivable and 50% of trade accounts receivable were 91% insured [as at March 31, 2021, five clients accounted for 41% of total trade accounts receivable and 39% of trade accounts receivable were 89% insured]. Historically, the Corporation has never written off a significant amount of trade accounts receivable. Outstanding trade accounts receivable over 90 days past due stood at 18% as at March 31, 2022 [31% in 2021]. The Corporation allowance for expected credit losses amounted to \$166 as at March 31, 2022 [\$253 as at March 31, 2021]. Accounts receivable included investment tax credits, commodity taxes and government assistance receivables, which are receivable from the government and not exposed to significant credit risk. Cash and cash equivalents are mainly held with a limited number of Canadian chartered banks.

As at March 31, 2021, cash equivalents consist of liquid investments, bearing interest at 0.75%, with no fixed maturity.

17.3 Foreign exchange risk

The Corporation is exposed to foreign exchange risk due to cash and cash equivalents, trade accounts receivable, deposits, and accounts payable denominated in U.S. dollars. As at March 31, 2022, financial assets, consisting primarily of cash, trade accounts receivable and deposits denominated in U.S. dollars, totaled \$2,556, \$3,048 and \$1,298 respectively [\$1,313, \$1,110 and \$95, respectively, as at March 31, 2021], and financial liabilities denominated in U.S. dollars totaled \$1,024 [\$430 as at March 31, 2021]. As at March 31, 2022, a 10% increase or decrease in the exchange rate between the U.S. dollar and the Canadian dollar would have had a \$735 impact on net loss and comprehensive loss [\$261 as at March 31, 2021].

Moreover, the Corporation uses derivative financial instruments to mitigate foreign exchange risk. The Corporation elected not to apply hedge accounting. However, the Corporation considers that those derivative instruments partially hedge the foreign exchange risk related to those transactions. As at March 31, 2022, the Corporation held foreign exchange contracts with a nominal value ranging from US\$5,900 to US\$9,387 [from US\$3,701 to US\$4,781 as at March 31, 2021], allowing it to sell U.S. currency at a Canadian dollar exchange rate ranging from 1.2000 to 1.2800 [1.3000 to 1.3376 as at March 31, 2021] maturing from April 2022 to February 2023 [April 2021 to December 2021 in 2021].

D-BOX Technologies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022

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

17.4 Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations as they become due. The Corporation manages its liquidity to allow for the settlement of liabilities when they become due by continuously monitoring actual and expected cash flows. In past years, the Corporation financed its liquidity needs primarily by issuing debt and equity securities. The Corporation believes that it has sufficient liquidity to meet its working capital obligations and carry on its business for the next twelve months. As the Corporation is currently incurring operating losses, additional capital may be required to continue developing and marketing its technology.

As of March 31, 2022, the Corporation's financial liabilities which had contractual maturities of under one year consisted of its credit facility, accounts payable and accrued liabilities, current portion of lease liabilities and current portion of long-term debt amounting to \$6,019 [\$7,134 as of March 31, 2021]. Non-current contractual liabilities included lease liabilities amounting to \$483 [\$700 as of March 31, 2021 – see note 10 for the maturity of lease payments] and long-term debt amounting to \$2,850 [\$1,641 as of March 31, 2021 – see note 12 for the maturity of debt payments].

17.5 Fair value

The fair value of cash and cash equivalents, accounts receivable, credit facility, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

The fair value of long-term debt bearing interest at a variable rate approximates its carrying value because the terms and conditions are comparable to current market terms and conditions.

The fair value of long-term debt bearing interest at a fixed rate is determined using the net present value of principal contractual payment discounted using a rate of 6% and represents an amount of approximately \$1,648.

18. CONTINGENCY

In the normal course of business, the Corporation is party to lawsuits and other proceedings. It is management's opinion that any resulting settlement would not have a material impact on the Corporation's financial position or operating results.