

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

June 30, 2021

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]

	Notes	June 30, 2021 \$	March 31, 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		6,700	9,134
Accounts receivable		3,366	2,341
Derivative financial instruments		113	169
Inventories	3	4,956	4,547
Prepaid expenses and deposits		706	606
Current portion of finance leases receivable		72	31
		15,913	16,828
Non-current assets			
Property and equipment		3,483	3,762
Intangible assets		2,274	2,229
Finance leases receivable		286	401
Other assets		513	516
		22,469	23,736
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	4	2,533	2,898
Accounts payable and accrued liabilities		3,847	3,518
Warranty provision		61	55
Deferred revenues		771	675
Current portion of lease liabilities		292	318
Current portion of long-term debt	5	500	400
		8,004	7,864
Non-current liabilities			
Lease liabilities		647	700
Long-term debt	5	1,548	1,641
		10,199	10,205
Equity			
Share capital	6.1	66,227	66,227
Share-based payments reserve	6.2	2,031	2,190
Warrants reserve	6.3	1,355	1,355
Foreign currency translation reserve		(80)	(115)
Deficit		(57,263)	(56,126)
		12,270	13,531
		22,469	23,736

Subsequent events [note 8]

See accompanying notes.

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

First quarters ended June 30

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

	Notes	2021 \$	2020 \$
Revenues			
System sales		2,551	2,132
Rights for use, rental and maintenance		612	98
		3,163	2,230
Cost of goods sold excluding amortization	7.1	1,302	879
Amortization related to cost of goods sold		344	444
Cost of goods sold		1,646	1,323
Gross profit		1,517	907
Other expenses			
Selling and marketing	7.2	1,148	584
Administration	7.3	1,017	861
Research and development	7.4	519	269
Foreign exchange loss		25	66
		2,709	1,780
Loss before financial expenses (income) and income taxes		(1,192)	(873)
Financial expenses (income)			
Financial expenses	7.5	159	99
Interest income		(6)	(5)
		153	94
Loss before income taxes		(1,345)	(967)
Income taxes (recovery)		(1)	(1)
Net loss		(1,344)	(966)
<i>Items that will be reclassified to net loss in subsequent periods:</i>			
Foreign currency translation gain		35	170
Comprehensive loss		(1,309)	(796)
Basic and diluted net loss per share		(0.006)	(0.005)
Weighted average number of common shares outstanding		220,225,573	175,950,573

See accompanying notes.

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

First quarters ended June 30
[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, 2021		66,227	2,190	1,355	(115)	(56,126)	13,531
Net loss		—	—	—	—	(1,344)	(1,344)
Foreign currency translation gain		—	—	—	35	—	35
Comprehensive loss		—	—	—	35	(1,344)	(1,309)
Share-based payments	6.2	—	48	—	—	—	48
Cancellation and expiration of stock options	6.2	—	(207)	—	—	207	—
Balance as at June 30, 2021		66,227	2,031	1,355	(80)	(57,263)	12,270
Balance as at March 31, 2020		62,762	2,149	—	(514)	(50,047)	14,350
Net loss		—	—	—	—	(966)	(966)
Foreign currency translation gain		—	—	—	170	—	170
Comprehensive loss		—	—	—	170	(966)	(796)
Share-based payments	6.2	—	46	—	—	—	46
Cancellation and expiration of stock options	6.2	—	(69)	—	—	69	—
Balance as at June 30, 2020		62,762	2,126	—	(344)	(50,944)	13,600

See accompanying notes.

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

First quarters ended June 30
[in thousands of Canadian dollars]

	Notes	2021 \$	2020 \$
OPERATING ACTIVITIES			
Net loss		(1,344)	(966)
Items not affecting cash			
Amortization of property and equipment		297	475
Amortization of intangible assets		224	191
Amortization of financing costs		7	—
Share-based payments	6.2	48	46
Change in fair value of derivative financial instruments		56	(563)
Unrealized foreign exchange loss		105	151
Cash flows used in operations before changes in working capital items		(607)	(666)
Changes in working capital items:			
Accounts receivable		(1,088)	2,010
Inventories		(409)	281
Prepaid expenses and deposits		(100)	(20)
Other assets		3	—
Accounts payable and accrued liabilities		322	(794)
Warranty provision		6	—
Deferred revenues		96	19
Employee benefits		—	(288)
		(1,170)	1,208
Cash flows provided by (used in) operating activities		(1,777)	542
INVESTING ACTIVITIES			
Payments on finances leases receivable		74	16
Additions to property and equipment		(18)	—
Additions to intangible assets		(269)	(63)
Cash flows used in investing activities		(213)	(47)
FINANCING ACTIVITIES			
Repayment of credit facility		(365)	—
Payment of lease liabilities		(79)	(74)
Cash flows used in financing activities		(444)	(74)
Effect of exchange rate fluctuations on cash and cash equivalents		—	15
Net change in cash and cash equivalents		(2,434)	436
Cash and cash equivalents, beginning of period		9,134	4,116
Cash and cash equivalents, end of period		6,700	4,552
Cash and cash equivalents consist of:			
Cash		1,634	704
Cash equivalents		5,066	3,848
Interest and income taxes included in operating activities:			
Interest paid		75	48

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
June 30, 2021

[Amounts are in thousands of Canadian dollars, except share, option, warrant, 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 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, a seat and/or 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 single operating segment which is the design, manufacture and sale of cutting-edge motion systems.

The unaudited interim condensed consolidated financial statements were approved by the Corporation’s Board of Directors on September 8, 2021.

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*. 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, 2021 annual consolidated financial statements which include the same accounting policies and methods of computation used in the preparation of these financial statements.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
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June 30, 2021

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

3. INVENTORIES

	June 30, 2021	March 31, 2021
	\$	\$
Parts and components	3,634	3,463
Finished goods	1,322	1,084
	4,956	4,547

4. 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 June 30, 2021 was \$2,533. This line of credit is renewable annually and bears interest at prime rate plus 3.25% [5.70% as of June 30, 2021]. 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 June 30, 2021, the Corporation was in compliance with the financial ratios required under the facility.

5. LONG-TERM DEBT

	June 30, 2021	March 31, 2021
	\$	\$
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 23 monthly principal installments of \$33 from July 2021 to May 2023 plus a final installment of \$1,233 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.	2,000	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%, and repayable in October 2021.	100	100
	2,100	2,100
Less: Financing costs	52	59
Less: Current portion of long-term debt	500	400
	1,548	1,641

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Debt payments for the next years are as follows:

	\$
2022	500
2023	400
2024	1,200
	2,100

As at June 30, 2021, the interest expense on long-term debt charged to net loss amounted to \$24 [\$48 for the quarter ended June 30, 2020].

As at June 30, 2021, the fair value of long-term debt approximates its carrying value because the terms and conditions were comparable to current market terms and conditions.

6. EQUITY

6.1 *Share-capital*

6.1.1 *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].

6.1.2 *Issued*

	June 30, 2021		March 31, 2021	
	#	\$	#	\$
Balance at end of period	220,225,573	66,227	220,225,573	66,227

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6.2 Share-based payments

Changes in the Corporation's stock options for the three-month periods ended June 30, 2021 and 2020 are summarized in the following table:

	2021		2020	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Balance as at March 31	12,582,034	0.18	14,448,289	0.24
Options granted	25,000	0.12	—	
Options cancelled and expired	(698,500)	0.40	(370,000)	0.28
Balance as at June 30	11,908,534	0.16	14,078,289	0.24
Options exercisable at end of period	6,128,196	0.22	9,228,622	0.30

For the quarter ended June 30, 2021, the share-based payment expense charged to loss amounted to \$48 [\$46 for the quarter ended June 30, 2020] with a corresponding amount recognized under share-based payments reserve. For the quarter ended June 30, the cancellation and expiry of options resulted in reclassification of \$207 [\$69 for the quarter ended June 30, 2020] from the share-based payments reserve to the deficit.

6.3 Warrants

Warrants for the three-month periods ended June 30, 2021 and 2020 are summarized as follows:

	2021		2020	
	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	—	
Expiring on March 4, 2023	44,275,000	0.16	—	
Balance as at June 30	48,847,441		2,000,000	

(a) Exercise price corresponds to the volume weighted average price of the Class A common shares on the Toronto Stock Exchange for the five trading days prior to the exercise date of the warrants. All warrants had vested as at June 30, 2021.

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

7.1 *Cost of goods sold excluding amortization*

The key components of cost of goods sold excluding amortization are detailed as follows for the three-month periods ended June 30:

	2021	2020
	\$	\$
Cost of parts and components	1,175	730
Employee costs	118	75
Other	9	74
	1,302	879

7.2 *Selling and marketing*

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

	2021	2020
	\$	\$
Employee costs	761	423
Professional fees	187	64
Advertising, travel and trade show	73	33
Amortization of property and equipment	28	42
Other	99	22
	1,148	584

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

7.3 Administration

The key components of administration expenses are detailed as follows for the three-month periods ended June 30:

	2021	2020
	\$	\$
Employee costs	521	311
Professional fees	198	170
Amortization of property and equipment and intangible assets	111	139
Other	187	241
	1,017	861

7.4 Research and development

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

	2021	2020
	\$	\$
Employee costs	436	309
Professional fees	9	18
Amortization of property and equipment and intangible assets	38	41
Tax credits	(28)	(130)
Other	64	31
	519	269

7.5 Financial expenses

The key components of financial expenses are detailed as follows for the three-month periods ended June 30:

	2021	2020
	\$	\$
Interest expense on long-term debt	24	48
Interest expense on credit facility	50	—
Interest expense on lease liabilities	15	20
Amortization of financing costs	7	—
Other interest and bank charges	63	31
	159	99

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7.6 Government assistance

For the quarter ended June 30, 2021, the Corporation recognized government assistance amounting to \$798 [\$593 for the quarter ended June 30, 2020] related to the Canada Emergency Wage Subsidy. An amount totaling \$744 [\$547 for the quarter ended June 30, 2020] was recorded as a reduction of operating expenses [reduction of employee costs included in cost of goods sold for \$132, in selling and marketing for \$311, in administration for \$139 and in research and development for \$162 [reduction of employee costs included in cost of goods sold for \$52, in selling and marketing for \$186, in administration for \$147 and in research and development for \$162 for the quarter ended June 30, 2020]] and an amount totaling \$54 [\$46 for the quarter ended June 30, 2020] was recorded as a reduction of intangible assets.

The Corporation also recognized government assistance amounting to \$61 related to the Canada Emergency Rent Subsidy for the quarter ended June 30, 2021 [nil for the quarter ended June 30, 2020], and this amount was recorded as a reduction of administration expenses.

An amount of \$581 was still to be received and included in accounts receivable as at June 30, 2021 [\$303 as at March 31, 2021].

8. SUBSEQUENT EVENTS

On September 7, 2021, the Corporation signed an agreement with the National Bank of Canada [“NBC”] related to a loan amounting to \$1,000 for the ongoing operations and working capital of the Corporation. This loan bearing interest at the fixed rate of 4% is repayable in 24 monthly principal installments of \$8 from the 13th month after the payment 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 the Business Development Bank of Canada [“BDC”].