

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

December 31, 2021

V. Board

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	December 31, 2021 \$	March 31, 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		5,171	9,134
Accounts receivable		4,693	2,341
Derivative financial instruments		—	169
Inventories	3	4,870	4,547
Prepaid expenses and deposits		1,114	606
Current portion of finance leases receivable		117	31
		15,965	16,828
Non-current assets			
Property and equipment		2,996	3,762
Intangible assets		2,274	2,229
Finance leases receivable		304	401
Other assets		448	516
		21,987	23,736
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	4	540	2,898
Accounts payable and accrued liabilities		4,447	3,518
Derivative financial instruments		79	—
Warranty provision		70	55
Deferred revenues		1,031	675
Current portion of lease liabilities		243	318
Current portion of long-term debt	5	533	400
		6,943	7,864
Non-current liabilities			
Lease liabilities		534	700
Long-term debt	5	2,997	1,641
		10,474	10,205
Equity			
Share capital	6.1	66,227	66,227
Share-based payments reserve	6.2	1,172	2,190
Warrants reserve	6.3	1,355	1,355
Foreign currency translation reserve		(172)	(115)
Deficit		(57,069)	(56,126)
		11,513	13,531
		21,987	23,736

See accompanying notes.

D-BOX Technologies Inc.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

Quarters and nine-month periods ended December 31

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

	Notes	Third Quarter		Nine Months	
		2021	2020	2021	2020
		\$	\$	\$	\$
Revenues					
System sales		3,480	2,767	10,347	7,567
Rights for use, rental and maintenance		2,098	230	3,994	577
		5,578	2,997	14,341	8,144
Cost of goods sold excluding amortization	7.1	2,000	1,675	6,056	4,328
Amortization related to cost of goods sold		341	146	977	1,024
Cost of goods sold		2,341	1,821	7,033	5,352
Gross profit		3,237	1,176	7,308	2,792
Other expenses					
Selling and marketing	7.2	1,365	1,457	3,726	2,371
Administration	7.3	1,484	1,106	3,586	2,719
Research and development	7.4	538	535	1,676	1,212
Impairment of intangible assets		179	—	179	—
Foreign exchange (gain) loss		(48)	125	(50)	(145)
		3,518	3,223	9,117	6,157
Loss before financial expenses (income) and income taxes		(281)	(2,047)	(1,809)	(3,365)
Financial expenses (income)					
Financial expenses	7.5	59	152	305	349
Interest income		—	(2)	(9)	(11)
		59	150	296	338
Loss before income taxes		(340)	(2,197)	(2,105)	(3,703)
Income taxes recovery		—	(3)	—	(2)
Net loss		(340)	(2,194)	(2,105)	(3,701)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain (loss)		(20)	135	(57)	352
Comprehensive loss		(360)	(2,059)	(2,162)	(3,349)
Basic and diluted net loss per share		(0.002)	(0.012)	(0.010)	(0.021)
Weighted average number of common shares outstanding		220,225,573	175,950,573	220,225,573	175,950,573

See accompanying note.

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

Nine-month periods ended December 31, 2021 and 2020
[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		—	—	—	—	(2,105)	(2,105)
Foreign currency translation loss		—	—	—	(57)	—	(57)
Comprehensive loss		—	—	—	(57)	(2,105)	(2,162)
Share-based payments	6.2	—	144	—	—	—	144
Cancellation and expiration of stock options	6.2	—	(1,162)	—	—	1,162	—
Balance as at December 31, 2021		66,227	1,172	1,355	(172)	(57,069)	11,513
Balance as at March 31, 2020		62,762	2,149	—	(514)	(50,047)	14,350
Net loss		—	—	—	—	(3,701)	(3,701)
Foreign currency translation gain		—	—	—	352	—	352
Comprehensive income (loss)		—	—	—	352	(3,701)	(3,349)
Share-based payments	6.2	—	96	—	—	—	96
Cancellation and expiration of stock options	6.2	—	(81)	—	—	81	—
Balance as at December 31, 2020		62,762	2,164	—	(162)	(53,667)	11,097

See accompanying note.

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

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

	Notes	2021 \$	2020 \$
OPERATING ACTIVITIES			
Net loss		(2,105)	(3,701)
Items not affecting cash			
Amortization of property and equipment		846	1,263
Amortization of intangible assets		638	608
Amortization of financing costs		28	13
Impairment of intangible assets		179	—
Accretion of interest expense		5	—
Government assistance		(115)	—
Gain on finance lease transactions		(109)	—
Share-based payments	6.2	144	96
Change in fair value of derivative financial instruments		248	(999)
Unrealized foreign exchange gain		(100)	(757)
Employee benefit liability		—	(414)
Cash flows used in operations before changes in working capital items		(341)	(3,891)
Changes in working capital items:			
Accounts receivable		(2,161)	3,482
Inventories		(323)	1,315
Prepaid expenses and deposits		(508)	(351)
Other assets		68	94
Accounts payable and accrued liabilities		930	(420)
Warranty provision		15	(60)
Deferred revenues		356	(112)
		(1,623)	3,948
Cash flows (used in) provided by operating activities		(1,964)	57
INVESTING ACTIVITIES			
Payments on finance leases receivable		120	21
Additions to property and equipment		(82)	(3)
Additions to intangible assets		(862)	(559)
Cash flows used in investing activities		(824)	(541)
FINANCING ACTIVITIES			
Repayment of credit facility		(2,358)	(716)
Payment of lease liabilities		(241)	(235)
Repayment of long-term debt		(200)	(4,000)
Proceeds from credit facility		—	4,000
Proceeds from long-term debt, net of financing costs paid		1,602	2,047
Cash flows (used in) provided by financing activities		(1,197)	1,096
Effect of exchange rate fluctuations on cash and cash equivalents		22	83
Net change in cash and cash equivalents		(3,963)	695
Cash and cash equivalents, beginning of period		9,134	4,116
Cash and cash equivalents, end of period		5,171	4,811
Cash and cash equivalents consist of:			
Cash		4,696	1,183
Cash equivalents		475	3,628
Interest and income taxes included in operating activities:			
Interest paid		171	218
Income tax paid		—	(2)

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 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 February 10, 2022.

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.

During the quarter ended December 31, 2021, the Corporation adjusted the presentation of the unaudited interim consolidated statements of net loss and comprehensive loss to reclassify the production costs of haptic coding from selling and marketing expenses to cost of goods sold to better reflect the nature of these costs. In addition, other adjustments to the comparative figures of the supplementary information presented in note 7 were reclassified to conform to the presentation adopted in the current period.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

3. INVENTORIES

	December 31, 2021	March 31, 2021
	\$	\$
Parts and components	3,995	3,463
Finished goods	875	1,084
	4,870	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 ongoing operations and working capital of the Corporation. The balance as of December 31, 2021 was \$540. This line of credit is renewable annually and bears interest at prime rate plus 3.25% [5.70% as of December 31, 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 of December 31, 2021, the Corporation was in compliance with the financial ratios required under the facility.

5. LONG-TERM DEBT

	December 31, 2021	March 31, 2021
	\$	\$
Loan with the Business Development Bank of Canada ["BDC"] amounting to \$2,000, bearing interest at BDC's 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.	1,800	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 2022.	100	100

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

	December 31, 2021	March 31, 2021
	\$	\$
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%, and repayable in 24 monthly principal 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. As at December 31, 2021, the Corporation met all the conditions and obligations of the loan agreement and the first amount of \$677 was subsequently received on October 4, 2021 and the second amount of \$169 on January 24, 2022.	735	—
	3,635	2,100
Less: Financing costs	105	59
Less: Current portion	533	400
	2,997	1,641

For the quarter and the nine-month period ended December 31, 2021, the interest expense on long-term debt charged to net loss amounted to respectively \$39 and \$90, including amounts of \$5 and \$5, respectively, accounted for as an accretion of interest expense [\$24 and \$33, including an amount of \$0 and \$0, respectively for the quarter and the nine-month period ended December 31, 2020].

As at December 31, 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.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

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

	December 31, 2021		March 31, 2021	
	Number	\$	Number	\$
Balance at end of period	220,225,573	66,227	220,225,573	66,227

6.2 Share-based payments

Changes in the Corporation's stock options for the nine-month periods ended December 31, 2021 and 2020 are summarized in the following table:

	2021		2020	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
Balance as at March 31	12,582,034	0.18	14,533,289	0.24
Options granted	25,000	0.12	—	—
Options cancelled	(1,840,000)	0.17	(843,333)	0.16
Options expired	(421,000)	0.62	(200,000)	0.42
Balance as at December 31	10,346,034	0.16	13,489,956	0.24
Options exercisable at end of period	5,804,871	0.21	10,052,784	0.29

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

For the quarter and the nine-month period ended December 31, 2021, the share-based compensation expense charged to loss amounted to \$44 and \$144, respectively [\$19 and \$96, respectively, for the quarter and the nine-month period ended December 31, 2020], with a corresponding amount recognized under share-based payments reserve. For the quarter and the nine-month period ended December 31, 2021, the cancellation and expiry of options resulted in a reclassification of \$1,162 [\$81 in 2020] from the share-based payments reserve to the deficit.

The fair value for options granted during the nine-month period ended December 31, 2021 was estimated at the grant date using the Black-Scholes option pricing model based on the following assumptions: 0.82% weighted average risk-free interest rate; no dividend; 96.6% weighted average volatility factor of the expected market price for the Corporation's shares; \$0.12 weighted average share price; and an expected weighted average option life of 5 years.

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 expected life of stock options is based on historical data and is not necessarily indicative of exercise patterns that might occur.

6.3 Warrants

Warrants for the nine-month periods ended December 31, 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 December 31	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 December 31, 2021.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

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 quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Cost of parts and components	1,658	1,296	4,929	3,208
Employee costs	271	228	727	585
Professional fees	—	9	6	9
Other	71	198	555	771
Government assistance	—	(56)	(161)	(245)
	2,000	1,675	6,056	4,328

7.2 *Selling and Marketing*

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

	Third Quarter		Nine Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	838	867	2,683	2,162
Professional fees	212	203	554	347
Advertising, travel and trade show	148	74	392	134
Amortization of property and equipment	24	258	83	336
Other	143	176	401	450
Government assistance	—	(121)	(387)	(644)
Restructuring costs	—	—	—	(414)
	1,365	1,457	3,726	2,371

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

[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 quarters and nine-month periods ended December 31:

	Third Quarter		Nine Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	633	670	1,907	1,604
Professional fees	374	182	796	606
Amortization of property and equipment and intangible assets	101	128	310	396
Other	376	221	944	585
Government assistance	—	(95)	(371)	(472)
	1,484	1,106	3,586	2,719

7.4 Research and development

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

	Third Quarter		Nine Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	482	631	1,498	1,621
Professional fees	60	57	154	80
Amortization of property and equipment and intangible assets	34	35	112	115
Tax credits	—	—	(20)	(31)
Other	(38)	(112)	132	(97)
Government assistance	—	(76)	(200)	(476)
	538	535	1,676	1,212

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2021

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

7.5 Financial expenses

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

	Third Quarter		Nine Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest expense on long-term debt	39	24	90	33
Interest expense on credit facility	6	45	81	139
Interest expense on lease liabilities	13	17	41	56
Amortization of financing costs	14	7	28	13
Other interest and bank charges	(13)	59	65	108
	59	152	305	349

7.6 Government assistance

For the quarter and nine-month period ended December 31, 2021, the Corporation recognized government assistance amounting to \$0 and \$995, respectively, [\$335 and \$1,921, respectively, for the quarter and nine-month period ended December 31, 2020] related to the Canada Emergency Wage Subsidy. Amounts totalling \$0 and \$923, respectively [\$320 and \$1,808 for the quarter and nine-month period ended December 31, 2020] were recorded as a reduction of operating expenses for the quarter and nine-month period ended December 31, 2021, and amounts totalling 0 and \$72, respectively, [\$15 and \$113, respectively, for the quarter and nine-month period ended December 31, 2020] was recorded as a reduction of intangible assets for the quarter and nine-month period ended December 31, 2021.

The Corporation also recognized government assistance amounting to \$0 and \$81, respectively, related to the Canada Emergency Rent Subsidy for the quarter and nine-month period ended December 31, 2021, [\$28 and \$28, respectively, for the quarter and nine-month period ended December 31, 2020] and this amount was recorded as a reduction of administration expenses.

In addition, the Corporation recognized government assistance amounting to \$115 related to the loan from the Economic Development Agency of Canada [note 5] for the nine-month period ended December 31, 2021 [nil for 2020], and this amount was recorded as a reduction of administration expenses.

An amount of \$0 related to government assistance was included in accounts receivable as at December 31, 2021 [\$303 as at March 31, 2021].