

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

For the three- and six-months ended September 30, 2023

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 CONDENSED CONSOLIDATED BALANCE SHEETS

As at
[in thousands of Canadian dollars]

	Notes	September 30, 2023 \$	March 31, 2023 \$
ASSETS			
Current assets			
Cash and cash equivalents		2,877	3,116
Short-term deposits		206	—
Accounts receivable		7,215	8,039
Inventories	3	8,200	9,966
Prepaid expenses and deposits		437	502
Current portion of finance leases receivable		125	128
		19,060	21,751
Non-current assets			
Property and equipment		2,518	2,771
Intangible assets		1,727	1,826
Finance leases receivable		346	351
Other assets		22	22
		23,673	26,721
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	4	1,160	1,160
Accounts payable and accrued liabilities		5,494	7,266
Derivative financial instruments		68	162
Warranty provision		153	119
Deferred revenues		963	2,741
Current portion of lease liabilities		258	243
Current portion of long-term debt	5	2,099	1,643
		10,195	13,334
Non-current liabilities			
Lease liabilities		136	240
Long-term debt	5	1,431	2,253
		11,762	15,827
Equity			
Share capital	6.1	66,227	66,227
Share-based payments reserve	6.2	804	842
Foreign currency translation reserve		(204)	(290)
Deficit		(54,916)	(55,885)
		11,911	10,894
		23,673	26,721

Subsequent event [note 5]

See accompanying notes.

D-BOX Technologies Inc.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT
(NET LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

	Notes	Three Months		Six Months	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenues					
System sales		8,708	4,371	16,188	8,692
Rights for use, rental and maintenance		2,144	1,771	5,155	4,563
		10,852	6,142	21,343	13,255
Cost of goods sold excluding amortization					
Amortization related to cost of goods sold		300	360	599	688
Cost of goods sold		5,984	3,207	11,154	6,357
Gross profit		4,868	2,935	10,189	6,898
Other expenses					
Selling and marketing		1,686	1,312	3,449	2,858
Administration		1,813	1,488	3,416	3,042
Research and development		795	712	1,955	1,571
Impairment (reversal)		—	(223)	—	(223)
Gain on disposal of assets		(1)	(5)	(1)	(5)
Foreign exchange (gain) loss		(10)	233	122	95
		4,283	3,517	8,941	7,338
Profit (loss) before financial expenses (income) and income taxes		585	(582)	1,248	(440)
Financial expenses (income)					
Financial expenses	7.1	175	150	343	256
Interest income		(1)	—	(2)	—
		174	150	341	256
Profit (loss) before income taxes		411	(732)	907	(696)
Income taxes		9	11	9	18
Profit (net loss)		402	(743)	898	(714)
<i>Items that will be reclassified to profit or loss:</i>					
Foreign currency translation (loss) gain		(25)	(104)	86	(141)
Comprehensive income (loss)		377	(847)	984	(855)
Basic and diluted profit (net loss) per share		0.002	(0.003)	0.004	(0.003)
Weighted average number of common shares outstanding	6.1	220,226,573	220,225,573	220,226,573	220,225,573

See accompanying notes.

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

Six-month periods ended September 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, 2022		66,227	1,220	1,355	(137)	(56,831)	11,834
Profit		—	—	—	—	(714)	(714)
Foreign currency translation loss		—	—	—	(141)	—	(141)
Comprehensive loss		—	—	—	(141)	(714)	(855)
Share-based payments	6.2	—	90	—	—	—	90
Cancellation and expiration of stock options	6.2	—	(337)	—	—	337	—
Balance as at September 30, 2022		66,227	973	1,355	(278)	(57,208)	11,069
Balance as at March 31, 2023		66,227	842	—	(290)	(55,885)	10,894
Profit		—	—	—	—	898	898
Foreign currency translation gain		—	—	—	86	—	86
Comprehensive income		—	—	—	86	898	984
Share-based payments	6.2	—	33	—	—	—	33
Cancellation and expiration of stock options	6.2	—	(71)	—	—	71	—
Balance as at September 30, 2023		66,227	804	—	(204)	(54,916)	11,911

See accompanying notes.

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

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

Notes	2023 \$	2022 \$
OPERATING ACTIVITIES		
Profit (net loss)	898	(714)
Items not affecting cash:		
Amortization of property and equipment	562	561
Amortization of intangible assets	384	487
Amortization of financing costs	19	25
Impairment (reversal)	—	(223)
Gain on disposal of assets	(1)	(5)
Share-based payments	33	168
Change in fair value of derivative financial instruments	(94)	646
Unrealized foreign exchange loss (gain)	112	(114)
Interest income on lease receivable	(44)	(44)
Interest expense on lease liabilities	45	20
Accretion of interest expense on long-term debt	19	15
Cash flows provided by operations before changes in working capital items	1,933	822
Changes in working capital items:		
Short-term deposits	(206)	—
Accounts receivable	827	(743)
Inventories	1,766	(2,317)
Prepaid expenses and deposits	65	(118)
Other assets	—	331
Accounts payable and accrued liabilities	(1,785)	1,022
Warranty provision	34	15
Deferred revenues	(1,778)	986
	(1,077)	(588)
Cash flows provided by (used in) operating activities	856	234
INVESTING ACTIVITIES		
Finance lease receivables payments	38	41
Additions to property and equipment	(308)	(224)
Additions to intangible assets	(285)	(487)
Cash flows used in investing activities	(555)	(670)
FINANCING ACTIVITIES		
Proceeds from credit facility	—	260
Repayment of long-term debt	(404)	(208)
Payment of lease liabilities	(134)	(129)
Proceeds from long-term debt	—	500
Cash flows (used in) provided by financing activities	(538)	423
Effect of exchange rate fluctuations on cash and cash equivalents	(2)	10
Net change in cash and cash equivalents	(239)	(3)
Cash and cash equivalents, beginning of period	3,116	3,937
Cash and cash equivalents, end of period	2,877	3,934
Cash and cash equivalents consist of:		
Cash	2,877	3,934
Cash equivalents	—	—
Interest and income taxes included in operating activities:		
Interest paid	261	150
Income taxes	9	18

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 2023

[Amounts are in thousands of Canadian dollars, except share, option and per share 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 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 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 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 November 9, 2023.

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, 2023 annual consolidated financial statements which include the same accounting policies and methods of computation used in the preparation of these financial statements.

3. INVENTORIES

	September 30,	March 31,
	2023	2023
	\$	\$
Parts and components ⁽¹⁾	6,909	8,934
Finished goods	1,291	1,032
	8,200	9,966

⁽¹⁾ As at September 30, 2023, parts and components include \$259 [\$1,297 as of March 31, 2023] of deposits related to the purchase of parts and components which cannot be redeemed for cash.

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4. CREDIT FACILITY

On June 28, 2023, the Corporation signed an amended 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 outstanding as of September 30, 2023 was \$1,160. This line of credit is renewable annually and bears interest at prime rate [7.20% as of September 30, 2023, and 6.70% as of March 31, 2023] plus 3.25%. 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 September 30, 2023, the Corporation was in compliance with the financial ratios required under the facility.

5. LONG-TERM DEBT

	September 30, 2023	March 31, 2023
	\$	\$
Loan with the Business Development Bank of Canada ["BDC"] amounting to \$2,000, bearing interest at the bank's prime rate [9.30% as of September 30, 2023, 8.80% as of March 31, 2023] plus 1.75% and repayable in monthly capital installments of \$20, maturing in June 2028. The loan is secured by second ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.	1,127	1,300
Loan with the 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 monthly installments of \$9 and the balance at maturity in September 2024. The loan is secured by a first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary and is guaranteed by BDC.	889	944
Loan with the NBC amounting to \$1,000 for ongoing operations and working capital of the Corporation, bearing interest at the bank's prime rate [7.20% as of September 30, 2023, and 6.70% as of March 31, 2023] plus 1.75% and repayable in monthly principal installments of \$19 and the balance at maturity in February 2024. 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 Export Development Canada ["EDC"].	870	963

D-BOX Technologies Inc.
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	September 30,	March 31,
	2023	2023
	\$	\$
Loan with Canada Economic Development amounting to \$846 for ongoing operations and working capital of the Corporation, repayable in monthly capital installments of \$9 until October 2024, and then monthly capital installments of \$16 until maturity in 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.	667	731
	3,553	3,938
Less: Financing costs	23	42
Less: Current portion of long-term debt	2,099	1,643
	1,431	2,253

Debt payments for the next years are as follows:

	\$
2024	2,099
2025	427
2026	427
2027	427
2028	206
	3,586
Less: discounting	33
	3,553

For the three- and the six-month periods ended September 30, 2023, the interest expense on long-term debt charged to profit (net loss) amounted to \$70 and \$140, respectively [\$55 and \$96 for the three- and the six-month periods ended September 30, 2022].

Subsequent to period end, on October 3, 2023, the Corporation signed the seventh amending agreement with the NBC relating to its loan facilities. The amendment increases the line of credit from \$4,000 to \$5,500 for the ongoing operations and working capital of the Corporation. This line of credit bearing interest at the prime rate plus 2.50% is secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary. The seventh amending agreement also extends the maturity of the \$1,000 loan with NBC, guaranteed by BDC, to September 2025.

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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

	September 30, 2023		March 31, 2023	
	#	\$	#	\$
Balance at end of period	220,226,573	66,227	220,226,573	66,227

6.2 Share-based payments

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

	2023		2022	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Balance as at March 31	8,620,000	0.13	12,691,034	0.15
Options cancelled and expired	(600,833)	0.19	(2,996,034)	0.19
Balance as at September 30	8,019,167	0.13	9,695,000	0.14
Options exercisable at end of period	5,993,334	0.14	5,087,333	0.17

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For the three- and six-month periods ended September 30, 2023, the share-based payment expense charged to profit (net loss) amounted to \$17 and \$33, respectively [\$45 and \$90 for the three- and six-month periods ended September 30, 2022, respectively] with a corresponding amount recognized under share-based payments reserve. For the three- and six-month periods ended September 30, 2023, the cancellation and expiry of options resulted in reclassification of \$1 and \$71, respectively [\$335 and \$337 for the three- and six-month periods ended September 30, 2022, respectively] from the share-based payments reserve to the deficit.

7. SUPPLEMENTARY INFORMATION ON THE UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT (NET LOSS) AND COMPREHENSIVE INCOME (LOSS)

7.1 Financial expenses

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

	Three Months		Six Months	
	2023	2022	2023	2022
	\$	\$	\$	\$
Interest expense on long-term debt	70	55	140	96
Interest expense on credit facility	59	30	121	54
Interest expense on lease liabilities	9	10	16	20
Amortization of financing costs	6	13	19	27
Other interest and bank charges	31	42	47	59
	175	150	343	256

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7.2 Government assistance

For the three- and six-month periods ended September 30, the Corporation recognized government assistance from various governmental entities. The funding has been recorded as a reduction of the related expenses as follows for the three- and six-month periods ended September 30:

	Three Months		Six Months	
	2023	2022	2023	2022
	\$	\$	\$	\$
Selling and marketing	—	122	—	247
Research and development	166	120	207	154
	166	242	207	401