

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

For the three and six months ended September 30, 2022

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]

		September 30, 2022	March 31, 2022
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		3,934	3,937
Accounts receivable		7,148	6,441
Derivative financial instruments		—	32
Inventories	3	7,480	5,163
Prepaid expenses and deposits		573	691
Current portion of finance leases receivable		120	97
		19,255	16,361
Non-current assets			
Property and equipment	4	2,938	3,051
Intangible assets		2,162	2,162
Finance leases receivable		361	379
Other assets		66	397
		24,782	22,350
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	5	1,320	1,060
Accounts payable and accrued liabilities		5,235	4,135
Derivative financial instruments		614	—
Warranty provision		85	70
Deferred revenues		2,080	1,094
Current portion of lease liabilities		233	223
Current portion of long-term debt	6	875	601
		10,442	7,183
Non-current liabilities			
Lease liabilities		364	483
Long-term debt	6	2,907	2,850
		13,713	10,516
Equity			
Share capital	7.1	66,227	66,227
Share-based payments reserve	7.2	973	1,220
Warrants reserve		1,355	1,355
Foreign currency translation reserve		(278)	(137)
Deficit		(57,208)	(56,831)
		11,069	11,834
		24,782	22,350

See accompanying notes.

D-BOX Technologies Inc.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS
AND COMPREHENSIVE 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	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenues					
System sales		4,371	4,317	8,692	6,868
Rights for use, rental and maintenance		1,771	1,284	4,563	1,896
		6,142	5,601	13,255	8,764
Cost of goods sold excluding amortization					
Amortization related to cost of goods sold		360	292	688	636
Cost of goods sold		3,207	2,899	6,357	4,688
Gross profit		2,935	2,702	6,898	4,076
Other expenses					
Selling and marketing		1,312	1,359	2,858	2,364
Administration		1,488	1,085	3,042	2,102
Research and development		712	619	1,571	1,138
Impairment (reversal)	4	(223)	—	(223)	—
Gain on disposal of assets		(5)	—	(5)	—
Foreign exchange loss (gain)		233	(26)	95	(1)
		3,517	3,037	7,338	5,603
Loss before financial expenses (income) and income taxes		(582)	(335)	(440)	(1,527)
Financial expenses (income)					
Financial expenses	8.1	150	87	256	246
Interest income		—	(2)	—	(8)
		150	85	256	238
Loss before income taxes		(732)	(420)	(696)	(1,765)
Income taxes		11	1	18	—
Net loss		(743)	(421)	(714)	(1,765)
<i>Items that will be reclassified to profit or loss:</i>					
Foreign currency translation loss		(104)	(72)	(141)	(37)
Comprehensive loss		(847)	(493)	(855)	(1,802)
Basic and diluted net loss per share		(0.003)	(0.002)	(0.003)	(0.008)
Weighted average number of common shares outstanding		220,225,573	220,225,573	220,225,573	220,225,573

See accompanying note.

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

Six-month periods ended September 30, 2022 and 2021
[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		—	—	—	—	(1,765)	(1,765)
Foreign currency translation loss		—	—	—	(37)	—	(37)
Comprehensive loss		—	—	—	(37)	(1,765)	(1,802)
Share-based payments	7.2	—	100	—	—	—	100
Cancellation and expiration of stock options	7.2	—	(1,147)	—	—	1,147	—
Balance as at September 30, 2021		66,227	1,143	1,355	(152)	(56,744)	11,829
Balance as at March 31, 2022		66,227	1,220	1,355	(137)	(56,831)	11,834
Net loss		—	—	—	—	(714)	(714)
Foreign currency translation loss		—	—	—	(141)	—	(141)
Comprehensive loss		—	—	—	(141)	(714)	(855)
Share-based payments	7.2	—	90	—	—	—	90
Cancellation and expiration of stock options	7.2	—	(337)	—	—	337	—
Balance as at September 30, 2022		66,227	973	1,355	(278)	(57,208)	11,069

See accompanying note.

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

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

	Notes	2022 \$	2021 \$
OPERATING ACTIVITIES			
Net loss		(714)	(1,765)
Items not affecting cash			
Amortization of property and equipment	4	561	574
Amortization of intangible assets		487	406
Amortization of financing cost		25	15
Impairment (reversal)	4	(223)	—
Gain on disposal of assets		(5)	—
Share-based payments	7.2	168	100
Change in fair value of derivative financial instruments		646	202
Unrealized foreign exchange gain		(114)	(121)
Interest on lease receivable		(44)	—
Interest expense on lease liabilities		20	—
Accretion of interest expense		15	—
Cash flows provided by (used in) operations before changes in working capital items		822	(589)
Changes in working capital items:			
Accounts receivable		(743)	(2,295)
Inventories		(2,317)	201
Prepaid expenses and deposits		(118)	(283)
Other assets		331	39
Accounts payable and accrued liabilities		1,022	282
Warranty provision		15	15
Deferred revenues		986	(30)
		(588)	(2,071)
Cash flows provided by (used in) operating activities		234	(2,660)
INVESTING ACTIVITIES			
Payments on finance leases receivable		41	77
Additions to property and equipment		(224)	(47)
Additions to intangible assets		(487)	(549)
Cash flows used in investing activities		(670)	(519)
FINANCING ACTIVITIES			
Increase (repayment) of credit facility		260	112
Repayment of long-term debt		(208)	(100)
Payment of lease liabilities		(129)	(159)
Proceeds from long-term debt net of financing costs paid		500	963
Cash flows provided by financing activities		423	816
Effect of exchange rate fluctuations on cash and cash equivalents		10	22
Net change in cash and cash equivalents		(3)	(2,341)
Cash and cash equivalents, beginning of period		3,937	9,134
Cash and cash equivalents, end of period		3,934	6,793
Cash and cash equivalents consist of:			
Cash		3,934	6,320
Cash equivalents		—	473
Interest and income taxes included in operating activities:			
Interest paid		150	126
Income tax paid		—	—

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 2022

[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 November 11, 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, 2022 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.
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3. INVENTORIES

	September 30,	March 31,
	2022	2022
	\$	\$
Parts and components ⁽¹⁾	6,694	4,193
Finished goods	786	970
	7,480	5,163

⁽¹⁾ As at September 30, 2022, parts and components include \$1,654 [\$1,320 as of March 31, 2022] of deposits related to the purchase of parts and components which cannot be redeemed for cash.

4. PROPERTY AND EQUIPMENT

Cost	Goods held for lease	Furniture and fixtures	Machinery and equipment	Computer hardware	Trade show stands	Buildings and leasehold improvements ⁽¹⁾	Total
Balance, March 31, 2021	13,202	370	711	1,961	1,211	3,000	20,455
Additions	18	—	—	377	—	20	415
Disposals and write-offs	—	—	—	—	—	(452)	(452)
Other changes ⁽²⁾	(39)	—	—	—	(4)	—	(43)
Balance, March 31, 2022	13,181	370	711	2,338	1,207	2,568	20,375
Additions	52	—	240	61	61	(154)	224
Disposals and write-offs	(22)	—	—	(5)	—	—	(27)
Other changes ⁽²⁾	536	—	—	—	63	—	599
Balance, September 30, 2022	13,747	370	915	2,394	1,331	2,414	21,171

Accumulated amortization	Goods held for lease	Furniture and fixtures	Machinery and equipment	Computer hardware	Trade show stands	Buildings and leasehold improvements ⁽¹⁾	Total
Balance, March 31, 2021	10,758	322	630	1,777	1,212	1,994	16,693
Amortization	574	26	45	120	—	359	1,124
Disposals and write-offs	—	—	—	—	—	(452)	(452)
Other changes ⁽²⁾	(33)	—	—	—	(6)	(2)	(41)
Balance, March 31, 2022	11,299	348	675	1,897	1,206	1,899	17,324
Amortization	265	7	32	87	56	114	561
Disposals and write-offs	(18)	—	—	(4)	—	—	(22)
Impairment reversal ⁽³⁾	(223)	—	—	—	—	—	(223)
Other changes ⁽²⁾	502	—	—	(1)	64	—	565
Balance, September 30, 2022	11,853	355	707	1,979	1,326	2,013	18,233

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Carrying value	Goods held for lease	Furniture and fixtures	Machinery and equipment	Computer hardware	Trade show stands	Buildings and leasehold improvements ⁽¹⁾	Total
Balance, March 31, 2022	1,882	22	36	441	1	669	3,051
Balance, September 30, 2022	1,894	15	208	415	5	401	2,938

- (1) As at September 30, 2022, building and leasehold improvements include right-of-use assets related to one lease agreement having a total cost and accumulated amortization of \$958 and \$570, respectively [\$1,113 and \$464 as of March 31, 2022].
- (2) Other changes relate to foreign exchange gain (loss).
- (3) As at September 30, 2022, 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. The Corporation determined that the recoverable amount exceeded the carrying amount of a given group of assets, resulting in the recognition of an impairment reversal of \$223. The impairment reversal was limited to total accumulated impairment less subsequent amortisation.

The allocation of amortization to the various items in the statements of net loss and comprehensive loss are detailed as follows for the three- and six-month periods ended September 30:

	Three Months		Six Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cost of goods sold	158	157	265	326
Selling and marketing	57	2	77	3
Administration	98	117	218	244
Research and development	—	1	1	1
	313	277	561	574

5. 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 September 30, 2022 was \$1,320. This line of credit is renewable annually and bears interest at prime rate [5.45% as of September 30, 2022] 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 of September 30, 2022, the Corporation was in compliance with the financial ratios required under the facility.

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6. LONG-TERM DEBT

	September 30, 2022	March 31, 2022
	\$	\$
Loan with the Business Development Bank of Canada ["BDC"] amounting to \$2,000, bearing interest at the banks prime rate [5.05% as of September 30, 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.	1,500	1,700
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.	992	1,000
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 banks prime rate [5.45% as of September 30, 2022] plus 1.75% and repayable in monthly principal installments of \$19 from the 6 th month after disbursement and the balance at maturity 12 months after the second disbursement. 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 Economic Development Agency of Canada ["EDC"].	500	—

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	September 30, 2022	March 31, 2022
	\$	\$
Loan with Canada Economic Development 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.	755	743
	3,847	3,543
Less: Financing costs	65	92
Less: Current portion of long-term debt	875	601
	2,907	2,850

Debt payments for the next years are as follows:

	\$
2023	875
2024	1,683
2025	699
2026	469
2027	169
Others	42
	3,937
Less: discounting	90
	3,847

For the three- and the six-month periods ended September 30, 2022, the interest expense on long-term debt charged to net loss amounted to \$55 and \$96, respectively [\$27 and \$51 for the three- and the six-month periods ended September 30, 2021].

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7. EQUITY

7.1 *Share-capital*

7.1.1 *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].

7.1.2 *Issued*

	September 30, 2022		March 31, 2022	
	#	\$	#	\$
Balance at end of period	220,225,573	66,227	220,225,573	66,227

7.2 *Share-based payments*

Changes in the Corporation's stock options for the six-month periods ended September 30, 2022 and 2021 are summarized in the following table:

	2022		2021	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
Balance as at March 31	12,691,034	0.15	12,583,034	0.18
Options granted	—	—	25,000	0.12
Options cancelled and expired	(2,996,034)	0.19	(723,500)	0.37
Balance as at September 30	9,695,000	0.14	11,883,534	0.16
Options exercisable at end of period	5,087,333	0.17	6,546,537	0.22

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

For the three- and the six-month periods ended September 30, 2022, the share-based payment expense charged to net loss amounted to \$45 and \$90, respectively [\$52 and \$100, respectively, for the three- and the six-month periods ended September 30, 2021], with a corresponding amount recognized under share-based payments reserve. For the three- and the six-month periods ended September 30, 2022, the cancellation and expiry of options resulted in a reclassification of \$335 and \$337, respectively [\$1,147 in 2021], from the share-based payments reserve to the deficit.

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

8.1 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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest expense on long-term debt	55	27	96	51
Interest expense on credit facility	30	25	54	74
Interest expense on lease liabilities	10	15	20	29
Amortization of financing costs	13	8	27	14
Other interest and bank charges	42	12	59	78
	150	87	256	246

D-BOX Technologies Inc.
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[Amounts are in thousands of Canadian dollars, except share, option, warrant, per-share and per-option amounts]

8.2 Government assistance

For the three- and six-month periods ended September 30, 2022 and 2021, the Corporation recognized government assistance from various governmental entities. Government assistance received on capital expenditures and deducted from the carrying amount of the internally generated intangible asset, D-BOX motion technology, amounted to \$42 for the three- and six-month periods ended September 30, 2022 [\$72 for the three- and six-month periods ended September 30, 2021]. The remaining 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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cost of goods sold excluding amortization	—	30	—	161
Selling and marketing	122	76	247	387
Administration	—	170	—	370
Research and development	120	38	154	200
	242	314	401	1,118