



# **Management's Discussion and Analysis**

**D-BOX Technologies Inc.  
Three-month period ended June 30, 2022**

# Table of Contents

<b>Table of Contents</b> .....	<b>i</b>
<b>1. SCOPE OF THE MD&amp;A</b> .....	<b>1</b>
<b>2. FORWARD-LOOKING STATEMENTS</b> .....	<b>1</b>
<b>3. CORPORATE PROFILE</b> .....	<b>2</b>
<b>4. FINANCIAL AND OPERATING HIGHLIGHTS</b> .....	<b>3</b>
4.1 Financial Highlights .....	3
4.2 Operating Highlights .....	3
<b>5. OPERATING RESULTS</b> .....	<b>4</b>
5.1 Revenues .....	4
5.2 Gross Profit .....	5
5.3 Operating Expenses .....	6
5.4 Financial Expenses .....	7
5.5 Income Taxes .....	7
5.6 Profit (Loss) .....	7
<b>6. QUARTERLY DATA</b> .....	<b>8</b>
<b>7. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES</b> .....	<b>8</b>
7.1 Operating Activities .....	9
7.2 Investing Activities .....	9
7.3 Financing Activities .....	9
<b>8. NON-IFRS FINANCIAL PERFORMANCE MEASURES</b> .....	<b>10</b>
<b>9. FULLY DILUTED SHARE CAPITAL (AUGUST 11, 2022)</b> .....	<b>10</b>
<b>10. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (“ESG”) STRATEGY</b> .....	<b>11</b>
<b>11. RISK AND UNCERTAINTIES</b> .....	<b>11</b>
<b>12. SUBSEQUENT EVENT</b> .....	<b>12</b>
<b>13. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING</b> .....	<b>12</b>
<b>14. OUTLOOK</b> .....	<b>12</b>
<b>15. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE</b> .....	<b>13</b>

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

## D-BOX Technologies Inc.

### Three-month period ended June 30, 2022

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#### 1. SCOPE OF THE MD&A

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This Management’s Discussion and Analysis (“MD&A”) is intended to provide the reader with a better understanding of the activities of D-BOX Technologies Inc. and its subsidiaries, as well as key elements of its financial results. In particular, it explains changes in the Corporation’s financial position and operating results for the three-month period ended June 30, 2022, by comparing them to the results of the corresponding period of the previous fiscal year. It also presents a comparison of the balance sheets as at June 30, 2022 and March 31, 2022.

This MD&A has been prepared in accordance with National Instrument 51-102, *Continuous Disclosure Obligations*, and should be read in conjunction with the information included in the audited consolidated financial statements for the fiscal year ended March 31, 2022 and accompanying notes and the unaudited interim condensed consolidated financial statements of the three-month period ended June 30, 2022. Unless otherwise indicated, the terms “Corporation” and “D-BOX” refer to D-BOX Technologies Inc.

The unaudited interim condensed consolidated financial statements for the three-month period ended June 30, 2022, and this MD&A have been reviewed by the Audit Committee and approved by the Board of Directors of the Corporation on August 11, 2022. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

#### 2. FORWARD-LOOKING STATEMENTS

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Certain information included in this MD&A may constitute “forward-looking information” within the meaning of applicable Canadian securities legislation. Forward-looking information may include, among others, statements regarding the future plans, activities, objectives, operations, strategy, business outlook, and financial performance and condition of the Corporation, or the assumptions underlying any of the foregoing. In this MD&A, words such as “may”, “would”, “could”, “will”, “likely”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate” and similar words and the negative form thereof are used to identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at or by which, such future performance will be achieved. Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on several assumptions which give rise to the possibility that actual results could differ materially from the Corporation’s expectations expressed in or implied by such forward-looking information and no assurance can be given that any events anticipated by the forward-looking information will transpire or occur, including but not limited to the future plans, activities, objectives, operations, strategy, business outlook and financial performance and condition of the Corporation.

Forward-looking information is provided in this MD&A for the purpose of giving information about Management’s current expectations and plans and allowing investors and others to get a better understanding of the Corporation’s operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information provided in this MD&A is based on information available at the date hereof and/or management’s good-faith belief with respect to future events and are subject to known or unknown risks, uncertainties, assumptions and other unpredictable factors, many of which are beyond the Corporation’s control.

The risks, uncertainties and assumptions that could cause actual results to differ materially from the Corporation’s expectations expressed in or implied by the forward-looking information include, but are not limited to: dependence on suppliers; indebtedness; future funding requirements; global health crises and COVID-19; political, social and economic conditions; strategic alliances; access to content; performance of content; distribution network including inflation and interest rates; concentration of clients; competition; technology standardization; exchange rate between the Canadian dollar and the U.S. dollar; warranty, recalls and lawsuits; intellectual property; security and management of information; credit risk; reputational risk through social media; and dependence on key personnel and labour relations. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking information are discussed under “Risk Factors” in the Corporation’s annual information form for the fiscal year ended March 31, 2022, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Except as may be required by Canadian securities laws, the Corporation does not intend nor does it undertake any obligation to update or revise any forward-looking information contained in the annual information form to reflect subsequent information, events, circumstances or otherwise.

The Corporation cautions readers that the risks described above are not the only ones that could have an impact on it. Additional risks and uncertainties not currently known to the Corporation or that the Corporation currently deems to be immaterial may also have a material adverse effect on the Corporation’s business, financial condition or results of operations.

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### **3. CORPORATE PROFILE**

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D-BOX creates and redefines haptic and immersive entertainment experiences by moving the body and sparking the imagination through motion, vibration and textures. D-BOX has collaborated with some of the best companies in the world to deliver new ways to enhance great stories. Whether its movies, TV series, video games, virtual reality, music, themed entertainment or professional simulation, D-BOX’s technology creates a feeling of presence that makes life resonate like never before.

Thanks to its unparalleled mastery of haptics, D-BOX offers the best possible synchronization of body movements with images and sound.

Three components produce unparalleled synchronized motion in perfect harmony with the images and sounds:

1. Software haptic effects are programmed as a track, frame by frame, in the case of linear content, or programmed as a library for interactive content based on the content’s specific telemetry.
2. A haptic processor (or haptic controller) serving as an interface between the content (films, video games, music, wellness, simulation and training, VR experiences) and the D-BOX haptic system. This device is able to recognize the content being used or played, regardless of the source, and associate it with the appropriate D-BOX Haptic Code. It then enables the D-BOX haptic systems to be synchronized with the content.
3. The D-BOX haptic system, consisting, amongst other things, of proprietary electromechanical actuators built into a seat, platform, or other type of equipment.

As at June 30, 2022, D-BOX had 92 employees compared with 86 employees as at June 30, 2021.

## 4. FINANCIAL AND OPERATING HIGHLIGHTS

### 4.1 Financial Highlights

#### Highlights for the three-month period ended June 30, 2022

- Total revenues increased 125% from \$3.2 million to \$7.1 million compared to the previous year.
- Rights for use, rental and maintenance revenues increased 356% from \$0.6 million to \$2.8 million compared to the previous year.
- Revenues related to system sales increased 69% from \$2.6 million to \$4.3 million compared to the previous year.
- Profit increased from a \$1.3 million loss to a \$29 thousand profit compared to the previous year.
- Adjusted EBITDA\* increased from \$(0.6) million to \$0.6 million compared to the previous year.
- Cash and cash equivalent was \$3.8 million as at June 30, 2022 compared with \$3.9 million as at March 31, 2022.

<b>Three-month periods ended June 30</b> (in thousands of dollars, except per share amounts)		
	<b>2022</b>	<b>2021</b>
Revenues	<b>7,113</b>	3,163
Profit (loss)	<b>29</b>	(1,344)
Adjusted EBITDA*	<b>605</b>	(598)
	<b>As at June 30, 2022</b>	<b>As at March 31, 2022</b>
Cash and cash equivalents	<b>3,826</b>	3,937

\* See the "Non-IFRS Financial Performance Measures" in section 8.

### 4.2 Operating Highlights

- During the first quarter of fiscal year 2023, 2 blockbuster movies, Doctor Strange and Top Gun, reached D-BOX's top 15 movies of all time in terms of tickets sold.
- LAI Games, a D-BOX partner in themed entertainment, is launching a new Virtual Rabbids Ultra HD product. Virtual Rabbids is one of the most popular unattended VR attractions.
- D-BOX, an EA-certified partner, has encoded the video game F1 2022 extending a 12-year relationship with the popular game.
- Simformotion, a D-BOX partner, will provide 18 simulators equipped with 4400i G3 D-BOX haptic system to train the next-generation operators of Georgia's Heavy Equipment Operations Pathway Simulator program.

## 5. OPERATING RESULTS

The following table shows selected significant financial information for the three-month period ended June 30, 2022, compared with the corresponding period of the previous fiscal year:

(Amounts are in thousands of Canadian dollars, except per-share data)

	Three-month periods ended June 30	
	2022	2021
Revenues	7,113	3,163
Gross profit excluding amortization*	4,291	1,861
Profit (loss)	29	(1,344)
Adjusted EBITDA*	605	(598)

\* See the "Non-IFRS Financial Performance Measures" in section 8.

### 5.1 Revenues

The following table presents the revenue information for the three-month period ended June 30, 2022, compared with the corresponding period of the previous fiscal year:

(Amounts are in thousands of Canadian dollars)

	Three-month periods ended June 30			
	2022	2021	Variation (\$)	Variation (%)
<b>Revenues from</b>				
System sales				
Commercial	3,344	1,724	1,620	94%
Home entertainment	977	827	150	18%
<b>Total System sales</b>	<b>4,321</b>	<b>2,551</b>	<b>1,770</b>	<b>69%</b>
Rights for use, rental and maintenance	2,792	612	2,180	356%
<b>TOTAL REVENUES</b>	<b>7,113</b>	<b>3,163</b>	<b>3,950</b>	<b>125%</b>

For the three-month period ended June 30, 2022, revenue increased 125% to \$7.1 million compared with \$3.2 million for the same period last year. This variation, and many of the variations throughout the operating results section, is explained by the reduction of government regulatory measures affecting entertainment venues in North American and European markets during the three-month period ended June 30, 2022, as compared to the three-month period ended June 30, 2021. The lack of government-mandated forced closures and social distancing measures for entertainment venues during the period ended June 30, 2022, allowed business operations to return to pre-pandemic levels.

Systems sales revenue increased 69% to \$4.3 million compared with \$2.6 million for the same period last year. The increase was driven by the growth in the commercial entertainment which include sales to theatrical exhibitors and themed entertainment.

Rights for use, rental and maintenance revenues increased 356% to \$2.8 million, a new quarterly record, compared with \$0.6 million for the same period last year. This growth is explained by the reopening of theaters and the release of major films in the first quarter ending June 30, 2022.

## 5.2 Gross Profit

The following table reconciles gross profit to gross profit excluding amortization for the three-month periods ended June 30, 2022, and 2021:

(Amounts are in thousands of Canadian dollars)

	Three-month periods ended June 30	
	2022	2021
Revenues	7,113	3,163
Gross profit	3,963	1,517
Amortization related to cost of goods sold	328	344
Gross profit excluding amortization*	4,291	1,861
Gross margin excluding amortization	60%	59%

\* See the "Non-IFRS Financial Performance Measures" in section 8.

For the three-month period ended June 30, 2022, gross profit increased to \$4.0 million from \$1.5 million for the same period last year. The increase is explained by the growth of rights for use, rental and maintenance revenues that generate a higher margin. Despite the higher margin, unfavorable changes in inflation impacting the cost of components and transportation offset the growth of rights for use, rental and maintenance revenues during the quarter.

For the three-month period ended June 30, 2022, gross profit excluding amortization related to cost of goods sold increased to \$4.3 million from \$1.9 million for the same period last year. Gross margin excluding amortization increased to 60% from 59% for the same period last year. The increase is explained by the growth of rights for use, rental and maintenance revenues that generate a higher margin.

### 5.3 Operating Expenses

(Amounts are in thousands of Canadian dollars)

	Three-month periods ended June 30		
	2022	2021	Variation (%)
<b>Selling and marketing</b>	<b>1,546</b>	1,148	35%
% of Revenues	22%	36%	
<b>Administration</b>	<b>1,554</b>	1,017	53%
% of Revenues	22%	32%	
<b>Research and development</b>	<b>859</b>	519	66%
% of Revenues	12%	16%	
<b>Foreign exchange (gain) loss</b>	<b>(138)</b>	25	(652)%
% of Revenues	-2%	1%	

**Government assistance:** For the three-month period ended June 30, 2022, the Corporation recognized government assistance from various governmental entities in the amount of \$0.2 million (\$0.9 million for the same period last year). Government assistance received on capital expenditures and deducted from the carrying amount of the internally generated intangible asset, D-BOX motion technology, amounted to \$nil for the three-month period ended June 30, 2022 (\$0.1 million for the same period last year). Although the Corporation has not benefit from government assistance related to COVID-19 relief since the quarter ended September 30, 2021, it will continue to apply for grants and assistance related to on-going operations, research, technology, and innovation.

**Selling and Marketing:** Selling and marketing expenses consist primarily of employee costs including share-based payments, professional fees, advertising and point-of-sale material expenses and attendance at trade shows. They also include expenses related to motion coding and other marketing expenses.

For the three-month period ended June 30, 2022, selling and marketing expenses increased by 35% to \$1.5 million (22% of revenues) compared with \$1.1 million (36% of revenues) for the same period last year. The increase is a result of business recovery. Trade shows, travel and headcount increased as a result of reduced government regulations.

**Administration:** Administration expenses consist primarily of employee costs including share-based payments, professional fees and other general and administration expenses.

For the three-month period ended June 30, 2022, administration expenses increased by 53% to \$1.6 million (22% of revenues) from \$1.0 million (32% of revenues) for the same period last year. The increase is a result of business recovery. For the quarter ended June 30, 2021, employee working hours as well as overall expenses were reduced due to the impact of the Covid-19 pandemic on our clients.

**Research and Development:** Research and development expenses mainly include costs related to employees including share-based payments, amortization of property and equipment and intangible assets, other costs associated with enhancements to existing products, and the cost of adapting products to various international standards, less investment tax credits.

For the three-month period ended June 30, 2022, research and development expenses increased by 66% to \$0.9 million (12% of revenues) from \$0.5 million (16% of revenues) for the same period last year. The increase is a result of projects



related to the next generation of actuators and software development. For the quarter ended June 30, 2021, employee working hours as well as overall expenses were reduced due to the impact of the Covid-19 pandemic on our clients.

**Foreign Exchange Loss:** Foreign exchange (gain) loss results primarily from the fluctuation of the Canadian dollar relative to the U.S. currency when translating U.S. dollar operations at the prevailing rate on the date of a transaction and the translation of U.S. dollar monetary assets and liabilities at the end-of-period rate. Foreign exchange (gain) loss includes the change in fair value of derivative financial instrument related to foreign exchange.

For the three-month period ended June 30, 2022, foreign exchange gain amounted to \$0.1 million compared with a foreign exchange loss of \$0.03 million for the corresponding period last year.

The foreign exchange difference was driven by the volatility of the Canadian dollar relative to the U.S. currency between the periods.

## 5.4 Financial Expenses

For the three-month period ended June 30, 2022, financial expenses net of interest income amounted to \$0.1 million compared with \$0.2 million for the same period last year.

## 5.5 Income Taxes

With respect to accounting for future income taxes, the Corporation has concluded that a valuation allowance equal to its future income tax assets should be recorded. Income tax expenses are related to D-BOX’s international operations in different countries and different foreign rules of taxation.

## 5.6 Profit (Loss)

Profit for the three-month period ended June 30, 2022, amounted to \$29 thousand (basic and diluted profit of \$0.000 per share) compared with a loss of \$1.3 million (basic and diluted net loss of \$0.006 per share) for the same period last year.

## 6. QUARTERLY DATA

Operating results for each of the past eight quarters are shown in the table below:

(Amounts are in thousands of Canadian dollars, except number of shares and per-share data)

	FY 2023	FY 2022				FY 2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Rights for use, rental and maintenance	2,792	1,579	2,098	1,284	612	308	230	249
System sales	4,321	5,392	3,480	4,317	2,551	2,628	2,767	2,668
<b>TOTAL REVENUES</b>	<b>7,113</b>	<b>6,971</b>	<b>5,578</b>	<b>5,601</b>	<b>3,163</b>	<b>2,936</b>	<b>2,997</b>	<b>2,917</b>
<b>Adjusted EBITDA*</b>	<b>605</b>	<b>972</b>	<b>402</b>	<b>150</b>	<b>(599)</b>	<b>(1,592)</b>	<b>(1,288)</b>	<b>(571)</b>
<b>Profit (loss)</b>	<b>29</b>	<b>238</b>	<b>(340)</b>	<b>(421)</b>	<b>(1,344)</b>	<b>(2,523)</b>	<b>(2,194)</b>	<b>(540)</b>
<b>Basic and diluted profit (loss) per share</b> (in thousands)	<b>0.000</b>	<b>0.001</b>	<b>(0.002)</b>	<b>(0.002)</b>	<b>(0.006)</b>	<b>(0.014)</b>	<b>(0.012)</b>	<b>(0.003)</b>
<b>Weighted average number of common shares outstanding</b>	<b>220,226</b>	<b>220,226</b>	<b>220,226</b>	<b>220,226</b>	<b>220,226</b>	<b>179,226</b>	<b>175,951</b>	<b>175,951</b>

\* See the "Non-IFRS Financial Performance Measures" in section 8.

## 7. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

The following table shows certain selected significant financial information from the consolidated balance sheets as at June 30, 2022 and March 31, 2022:

(Amounts are in thousands of Canadian dollars)

Information from the Consolidated Balance Sheets	As at June 30, 2022	As at March 31, 2022
Cash and cash equivalents	3,826	3,937
Inventories	6,114	5,163
Working capital	9,177	9,178
Total assets	22,704	22,350
Current liabilities	7,703	7,183
Long-term debt	3,375	3,451
Total liabilities	10,833	10,516
Equity	11,871	11,834

As at June 30, 2022, working capital remained stable at \$9.2 million, from March 31, 2022. This stability is maintained due to an offsetting increase in inventory of \$1.0 million, decrease in cash and cash equivalents of \$0.1 million and an increase in deferred revenues of \$0.7 million which was \$1.8 million as of June 30, 2022, compared with \$1.1 million as of March 31, 2022.

Current liabilities increased \$0.5 million to \$7.7 million as at June 30, 2022. The variation is attributable to the increase of deferred revenues of \$0.7 million, and the decrease of accounts payable \$0.4 million which was \$3.8 million as of June 30, 2022, compared with \$4.1 million as of March 31, 2022. This variation also explains the variation of total liabilities which increased \$0.3 million to \$10.8 million as at June 30, 2022.

As at June 30, 2022, long-term debt, including the current portion, stood at \$3.4 million, versus \$3.5 million as at March 31, 2022. In addition, the Corporation was using only \$1.1 million of an available line of credit of \$4.0 million.

Equity increased \$0.04 million to \$11.9 million as at June 30, 2022, from \$11.8 million as at March 31, 2022. The increase resulted mainly from the \$29 thousand profit for the three-month period ended June 30, 2022.

The following table shows selected significant financial information for the three-month period ended June 30, 2022, compared with the corresponding period of the previous fiscal year:

(Amounts are in thousands of Canadian dollars).

Information from the Consolidated Statements of Cash Flows	Three-month periods ended June 30	
	2022	2021
Cash flows provided by (used in) operating activities	333	(1,777)
Cash flows used in investing activities	(330)	(213)
Cash flows used in financing activities	(134)	(444)

For the three-month period ended June 30, 2022, net change in cash and cash equivalents totaled \$(0.1) million compared to \$(2.4) million for the same period last year. The increase reflects the Corporation’s increased operations.

## 7.1 Operating Activities

For the three-month period ended June 30, 2022, cash flows provided by operating activities totaled \$0.3 million compared with cash flows used in operating activities of \$1.8 million for the same period last year. This \$2.1 million variance in cash flow from operating activities is mainly attributable to profit in the current quarter as compared to last year and working capital items. The net cash collection of \$0.4 million in accounts receivable as compared to \$(1.1) in the previous year, and by cash flow from deferred revenues of \$0.7 million for the three-month period ended June 30, 2022, compared with \$0.1 million for the same period the previous year.

## 7.2 Investing Activities

For the three-month period ended June 30, 2022, cash flows used in investing activities amounted to \$0.3 million compared with \$0.2 million last year. This variance is mainly explained by investment totalling \$0.3 million in intangible assets related to the Corporation’s investment in technology development related to salaries, materials and certification for the three-month period ended June 30, 2022.

## 7.3 Financing Activities

For the three-month period ended June 30, 2022, cash flows used in financing activities amounted to \$0.1 million compared with \$0.4 million last year.

For the three-month period ended June 30, 2022, an amount of \$0.1 million was attributable to repayment of long-term debt.

As at June 30, 2022, the effective interest rate of long-term debt was 5.80% (4.55% as at June 30, 2021). For the three-month period ended June 30, 2022, the interest expense on long-term debt charged to profit (loss) amounted to \$0.04 million compared with \$0.02 million for the same period last year.

## 8. NON-IFRS FINANCIAL PERFORMANCE MEASURES

The Corporation uses two non-IFRS financial performance measures in its MD&A and other communications. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics is meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Corporation’s performance. The two non-IFRS performance measures are described as follow:

- Adjusted EBITDA provides useful and complementary information, which can be used, in particular, to assess profitability and cash flows from operations. It consists of profit (loss) excluding amortization, financial expenses net of income, income taxes (recovery), impairment charges, if any, share-based payments, foreign exchange (gain) loss and non-recurring expenses related to restructuring costs, if any. The following table reconciles adjusted EBITDA to profit (loss):

(Amounts are in thousands of Canadian dollars)

	Three-month periods ended June 30	
	2022	2021
<b>Profit (loss)</b>	<b>29</b>	<b>(1,344)</b>
Amortization of property and equipment	<b>248</b>	297
Amortization of intangible assets	<b>230</b>	224
Financial expenses	<b>106</b>	153
Income taxes (recovery)	<b>7</b>	(1)
Share-based payments	<b>123</b>	48
Foreign exchange (gain) loss	<b>(138)</b>	25
<b>Adjusted EBITDA</b>	<b>605</b>	<b>(598)</b>

- Gross profit excluding amortization is used to evaluate the Corporation’s capacity to generate funds through product sales by considering the cost of these products while excluding the main non-cash item, namely amortization (see the reconciliation table in section 5.2).

## 9. FULLY DILUTED SHARE CAPITAL (AUGUST 11, 2022)

	Class A common shares
Class A common shares outstanding	220,225,573
Convertible instruments	
Stock-options outstanding	12,201,701
Warrants	48,847,441
	<b>281,274,715</b>

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## 10. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (“ESG”) STRATEGY

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The Corporation is committed to conducting its business in an ethical, legal and socially responsible manner, with an ever more responsible approach by promoting, accelerating, and facilitating the integration of sustainable development principles into its business model.

ESG matters are interwoven with each other and must be addressed by all responsible corporate citizens. The Corporation recognizes that ESG has gained a greater importance among investors, policymakers, and other key stakeholders because it is seen as a way to safeguard businesses from future risks. The three pillars of ESG for D-BOX are as follows:

*‘E’ or Environmental* pertains to the Corporation’s energy use, waste, pollution, and natural resource conservation;

*‘S’ or Social* looks at how the Corporation interacts with communities where it operates, and the Corporation’s internal policies related to labour, diversity and inclusion policies, among others;

*‘G’ or Governance* relates to internal practices and policies that lead to effective decision making and legal compliance. ESG facilitates the Corporation’s top-line growth in the long run, attracts talent, reduces costs, and forge a sense of trust amongst consumers.

D-BOX has taken a proactive approach by adopting policies and behaviours pertaining to environment and sustainability, wellbeing, diversity and ethics. These policies and behaviours are described in the Annual Information Form (AIF) dated June 2, 2022, which is available on [www.sedar.com](http://www.sedar.com).

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## 11. RISK AND UNCERTAINTIES

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For a detailed description of risk factors associated with the Corporation, please refer to the “Risk Factors” section of the Corporation’s Annual Information Form (the “AIF”) dated June 2, 2022, which is available on [www.sedar.com](http://www.sedar.com). The following update should be read together with such risk factors described in the 2022 AIF, which are hereby incorporated by reference.

### **Dependence on Suppliers Update (Supply Chain Disruptions)**

The overall demand environment continues to improve but remains impacted by industry-wide supply constraints which have contributed to a challenging supply chain environment. Supply chain issues for the three-month period ended June 30, 2022 were exacerbated by pandemic related lockdowns in China and increasing inflationary pressures, which are driving up material and logistics costs. These supply chain constraints have elevated costs and delayed certain unit shipments, resulting in a higher level of backlog and related inventory at the end of the period. We expect this trend to continue in the near term.

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## 12. SUBSEQUENT EVENT

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On July 8, 2022, the Corporation signed an agreement with the National Bank of Canada [“NBC”] related to a loan amounting to \$1 million for the ongoing operations and working capital of the Corporation. This loan bearing interest at the Canadian Prime Rate plus 1.75% is repayable in monthly principal payments of \$19 thousand from the 6<sup>th</sup> month after the first 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 Business Development Bank of Canada (“BDC”).

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## 13. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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Internal control over financial reporting aims to provide reasonable insurance regarding the reliability of the Corporation’s financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the three-month period ended June 30, 2022, there were no changes in the Corporation’s internal control over financial reporting that materially affected, or are likely to materially affect, the Corporation’s internal control over financial reporting.

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## 14. OUTLOOK

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D-BOX has developed a strong brand globally in the commercial market with a significant leadership position in the theatrical, sim racing, location-based entertainment and professional simulation markets. Owing to the technological progress, versatility of its haptic platform and global fan base, D-BOX is now geared to pursue gaming opportunities.

The video game is an attractive market and could eventually become an important revenue contributor for D-BOX as its haptic products are integrated into video game and streaming gears of which the market is estimated to grow at over 20% CAGR between 2020 and 2024 to about \$45 billion by 2024 according to Jon Peddie Research<sup>1</sup>. Gamers have long adopted basic haptics technology, with rumbles on video game controllers. Haptic cues enhance the emotional gaming experience and immersion, while improving the performance of gamers, opening a plethora of opportunities for D-BOX.

U.S. consumer spending on home entertainment content grew 7.8% to \$32.3 billion<sup>2</sup> in 2021 and 10.9%<sup>3</sup> for the first quarter of 2022. Currently, D-BOX sells haptic systems to seating manufacturers to pursue the home entertainment opportunity. Our strategy is to leverage our strong commercial brand associated with the immersive entertainment experience.

The size and growth potential for the commercial entertainment market, including the theatrical and themed entertainment sub-markets, are large and will continue to expand as consumers flock back to entertainment venues. Consumers are eager to get entertained with an enhanced and immersive experience as validated by the strong box

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<sup>1</sup> “The Worldwide PC Gaming Hardware Market report”, Jon Peddie Research, July 13, 2021

<sup>2</sup> “DEG Year-End 2021 Digital Media Entertainment Report”, Digital Entertainment Group, February 3, 2022

<sup>3</sup> “DEG Q1 2022 Digital Media Entertainment Report”, Digital Entertainment Group, May 13, 2022

office receipts from North American theatrical exhibitors which grew 349%<sup>4</sup> YoY. With the upcoming blockbuster releases such as Avatar: The Way of Water and Black Panther: Wakanda Forever, the outlook for the theatrical market is promising for the remainder of the year. For the themed entertainment market, a recent market study from Polaris Market Research<sup>5</sup> forecasts that global location-based entertainment market to grow 34% CAGR to reach US\$21.4 billion by 2028.

For the Simulation and Training segment, the market size is estimated to grow 10% per annum to US\$20 billion by 2027<sup>6</sup>. The business fundamentals for simulators remain strong driven by safety and prevention measures, increased skills and productivity, environmentally friendly, as well as cost savings compared to training on planes, heavy equipment trucks or automobiles.

While there are uncertainty related to geopolitical, economic and supply chain risks, we are cautiously optimistic that the demand for D-BOX solutions will remain strong. With robust fundamentals for the commercial entertainment, product launches for the home entertainment, and a resilient and growing simulation and training market, D-BOX is well positioned for growth.

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## 15. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

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This MD&A was prepared as at August 11, 2022. Additional information can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The trademarks D-BOX, HAPTICODE, HAPTISYNC, FEEL IT ALL, MOVE THE WORLD, LIVE THE ACTION, HEMC and D-BOX MOTION CODE, whether in text or graphical form, are owned by the Corporation and in most cases are registered or in the process of being registered in Canada and in the countries or territories in which these trademarks are used.

All aspects of the D-BOX haptic effects are protected by copyright.

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<sup>4</sup> [www.boxofficemojo.com](http://www.boxofficemojo.com), Domestic Box Office, from Jan. 1 to May 26 2022

<sup>5</sup> “Location-based Entertainment Market Size Worth \$21.42 Billion by 2028 | CAGR: 34.2%”, Polaris Market Research,

<sup>6</sup> *Operator Training Simulator Market*, dated November 2021 by Global Market Insights, Inc.