

Unaudited Interim Condensed Consolidated Financial Statements

**D-BOX Technologies Inc.**

December 31, 2020

**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, 2020 \$	March 31, 2020 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,811	4,116
Accounts receivable		2,821	6,474
Derivative financial instruments		153	—
Inventories	3	5,216	6,531
Prepaid expenses and deposits		841	490
Current portion of finance leases receivable		31	—
		<b>13,873</b>	<b>17,611</b>
<b>Non-current assets</b>			
Property and equipment		4,329	5,589
Intangible assets		2,532	2,581
Finance leases receivable		409	461
Other assets		535	629
		<b>21,678</b>	<b>26,871</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Credit facility	5	3,284	—
Accounts payable and accrued liabilities		3,274	4,730
Derivative financial instruments		—	846
Warranty provision		54	114
Deferred revenues		841	953
Current portion of lease liabilities		318	273
Current portion of long-term debt	6	300	4,000
		<b>8,071</b>	<b>10,916</b>
<b>Non-current liabilities</b>			
Lease liabilities		776	1,056
Long-term debt	6	1,734	—
Employee benefits		—	549
		<b>10,581</b>	<b>12,521</b>
<b>Equity</b>			
Share capital	7.1	62,762	62,762
Share-based payments reserve	7.2	2,164	2,149
Foreign currency translation reserve		(162)	(514)
Deficit		<b>(53,667)</b>	<b>(50,047)</b>
		<b>11,097</b>	<b>14,350</b>
		<b>21,678</b>	<b>26,871</b>

*See accompanying notes to consolidated financial statements.*

**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	
		2020	2019	2020	2019
		\$	\$	\$	\$
<b>Revenues</b>					
System sales		2,767	3,651	7,567	13,269
Rights for use, rental and maintenance		230	1,822	577	6,066
		<b>2,997</b>	<b>5,473</b>	<b>8,144</b>	<b>19,335</b>
<b>Cost of goods sold</b>					
Cost of goods sold excluding amortization	8.1	1,592	1,909	4,083	7,207
Amortization related to cost of goods sold		146	518	1,024	1,361
Cost of goods sold		<b>1,738</b>	<b>2,427</b>	<b>5,107</b>	<b>8,568</b>
<b>Gross profit</b>		<b>1,259</b>	<b>3,046</b>	<b>3,037</b>	<b>10,767</b>
<b>Other expenses</b>					
Selling and marketing	8.2	1,540	2,344	2,616	6,929
Administration	8.3	1,106	1,529	2,719	4,341
Research and development	8.4	535	690	1,212	2,068
Foreign exchange loss (gain)		125	4	(145)	117
		<b>3,306</b>	<b>4,567</b>	<b>6,402</b>	<b>13,455</b>
<b>Loss before financial expenses (income) and income taxes</b>		<b>(2,047)</b>	<b>(1,521)</b>	<b>(3,365)</b>	<b>(2,688)</b>
<b>Financial expenses (income)</b>					
Financial expenses		152	110	349	546
Interest income		(2)	(16)	(11)	(79)
		<b>150</b>	<b>94</b>	<b>338</b>	<b>467</b>
<b>Loss before income taxes</b>		<b>(2,197)</b>	<b>(1,615)</b>	<b>(3,703)</b>	<b>(3,155)</b>
<b>Income taxes (recovery)</b>		<b>(3)</b>	<b>—</b>	<b>(2)</b>	<b>(1)</b>
<b>Net loss</b>		<b>(2,194)</b>	<b>(1,615)</b>	<b>(3,701)</b>	<b>(3,154)</b>
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain		135	22	352	124
<b>Comprehensive loss</b>		<b>(2,059)</b>	<b>(1,593)</b>	<b>(3,349)</b>	<b>(3,030)</b>
<b>Basic and diluted net loss per share</b>		<b>(0.012)</b>	<b>(0.008)</b>	<b>(0.021)</b>	<b>(0.017)</b>
<b>Weighted average number of common shares outstanding</b>		<b>175,950,573</b>	<b>175,950,573</b>	<b>175,950,573</b>	<b>175,950,573</b>

See accompanying notes to consolidated financial statements.

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

Nine-month periods ended December 31

[in thousands of Canadian dollars]

	Notes	Share capital \$	Share- based payments reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total \$
<b>Balance as at March 31, 2020</b>		<b>62,762</b>	<b>2,149</b>	<b>—</b>	<b>(514)</b>	<b>(50,047)</b>	<b>14,350</b>
Net loss		—	—	—	—	(3,701)	(3,701)
Foreign currency translation gain		—	—	—	352	—	352
Comprehensive loss		—	—	—	352	(3,701)	(3,349)
Share-based payments	7.2	—	96	—	—	—	96
Cancellation and expiration of stock options	7.2	—	(81)	—	—	81	—
<b>Balance as at December 31, 2020</b>		<b>62,762</b>	<b>2,164</b>	<b>—</b>	<b>(162)</b>	<b>(53,667)</b>	<b>11,097</b>
<b>Balance as at March 31, 2019</b>		<b>62,762</b>	<b>5,534</b>	<b>528</b>	<b>(436)</b>	<b>(47,865)</b>	<b>20,523</b>
Net loss		—	—	—	—	(3,154)	(3,154)
Foreign currency translation gain		—	—	—	124	—	124
Comprehensive loss		—	—	—	124	(3,154)	(3,030)
Share-based payments	7.2	—	116	—	—	—	116
Cancellation and expiration of stock options and warrants	7.2, 7.3	—	(3,271)	(528)	—	3,799	—
<b>Balance as at December 31, 2019</b>		<b>62,762</b>	<b>2,379</b>	<b>—</b>	<b>(312)</b>	<b>(47,220)</b>	<b>17,609</b>

*See accompanying notes to consolidated financial statements.*

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

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

Notes	2020 \$	2019 \$
<b>OPERATING ACTIVITIES</b>		
Net loss	(3,701)	(3,154)
Items not affecting cash		
Amortization of property and equipment	1,263	1,391
Amortization of intangible assets	608	664
Amortization of other assets	—	3
Amortization of financing costs	(13)	—
Loss on disposal of property and equipment	—	2
Share-based payments	96	116
Unrealized foreign exchange gain	(1,730)	(469)
Employee benefit liability	(414)	479
Accretion of interest expense	—	147
<b>Cash flows used in operations before changes in working capital items</b>	<b>(3,891)</b>	<b>(821)</b>
<b>Changes in working capital items:</b>		
Accounts receivable	3,482	2,342
Inventories	1,315	412
Prepaid expenses and deposits	(351)	31
Goods held for lease	—	(470)
Other assets	94	49
Accounts payable and accrued liabilities	(420)	(3,532)
Warranty provision	(60)	(2)
Deferred revenues	(112)	(27)
	<b>3,948</b>	<b>(1,197)</b>
<b>Cash flows provided by (used in) operating activities</b>	<b>57</b>	<b>(2,018)</b>
<b>INVESTING ACTIVITIES</b>		
Finances leases receivable payments	21	—
Additions to property and equipment	(3)	(266)
Disposal of property and equipment	—	7
Additions to intangible assets	(559)	(735)
<b>Cash flows used in investing activities</b>	<b>(541)</b>	<b>(994)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of credit facility	(716)	—
Payment of lease liabilities	(235)	(189)
Repayment of long-term debt	(4,000)	(5,000)
Proceeds from credit facility	4,000	—
Proceeds from long-term debt, net of financing costs paid	2,047	4,000
<b>Cash flows provided by (used in) financing activities</b>	<b>1,096</b>	<b>(1,189)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	83	(42)
<b>Net change in cash and cash equivalents</b>	<b>695</b>	<b>(4,243)</b>
Cash and cash equivalents, beginning of period	4,116	9,635
<b>Cash and cash equivalents, end of period</b>	<b>4,811</b>	<b>5,392</b>
<b>Cash and cash equivalents consist of:</b>		
Cash	1,183	1,161
Cash equivalents	3,628	4,231
<b>Interest and income taxes included in operating activities:</b>		
Interest paid	218	217
Income tax paid (recovered)	(2)	1

*See accompanying notes to consolidated financial statements.*

**D-BOX Technologies Inc.**  
**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
December 31, 2020

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

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## **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, seat and/or other products. 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 one operating segment which is the design, manufacturing 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 11, 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, 2020, annual consolidated financial statements that include the same accounting policies and methods of computations used in the preparation of these financial statements.

During the third quarter ended December 31, 2020, the Corporation adjusted the presentation of its revenues in the unaudited interim consolidated statements of net loss and comprehensive loss to regroup all system sales together, to better reflect the future direction of the Corporation. Comparative figures have been reclassified to conform to the presentation adopted in the current period.

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**3. INVENTORIES**

	<b>December 31, 2020</b>	<b>March 31, 2020</b>
	\$	\$
Parts and components	<b>4,861</b>	5,303
Finished goods	<b>355</b>	1,228
	<b>5,216</b>	6,531

**4. SHARE-BASED PAYMENT LIABILITY**

In June 2016, a restricted share unit plan ["RSU"] and a deferred share unit plan ["DSU"] were adopted by the Board of Directors. The liability resulting from these share unit plans is measured at fair value of the underlying share price for each unit at the grant date and measured again at the end of each reporting period and at the settlement date. Any change in fair value is recognized in the consolidated statements of net loss and comprehensive loss.

	<b>2020</b>		<b>2019</b>	
	<b>RSU Share Units</b>	<b>DSU Share Units</b>	<b>RSU Share Units</b>	<b>DSU Share Units</b>
Balance as at March 31	—	<b>80,000</b>	470,000	240,000
Units redeemed for cash	—	—	(470,000)	(80,000)
<b>Balance as at December 31</b>	—	<b>80,000</b>	—	160,000
Units exercisable at end of period	—	<b>80,000</b>	—	160,000

DSU share units vest 12 months after the grant date and are redeemed for cash or shares upon cessation of participants' service for all vested units.

**5. CREDIT FACILITY**

On July 24, 2020, the Corporation signed a definitive 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 December 31, 2020 was \$3,284. This line of credit is renewable annually and bears interest at prime rate plus 3.25% [5.79% as of December 31, 2020]. The line of credit is secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.

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As at December 31, 2020, The Corporation was not in compliance with the financial covenants related to the NBC agreement. On January 25, 2021, D-BOX entered into an amendment agreement with NBC. In light of the COVID-19 pandemic and its effects on D-BOX's businesses, the amendment provides D-BOX with the immediate suspension of certain financial covenants effective December 31, 2020 and such suspension will be extended to the fourth quarter of 2021 ended March 31, 2021, upon certain conditions.

**6. LONG-TERM DEBT**

	<b>December 31, 2020</b>	<b>March 31, 2020</b>
	\$	\$
Loan with the Business Development Bank of Canada in the amount of \$2,000, bearing interest at the BDC variable rate, currently 4.55%, and repayable in 24 monthly capital installments of \$33 from July 2021 to May 2023 plus a final installment of \$1,200 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.	<b>2,000</b>	—
Loan with the National Bank of Canada bearing interest at a variable rate plus 2.25% [effective rate of 6.2%]. This loan was repaid in July 2020.	—	4,000
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.	<b>100</b>	—
	<b>2,100</b>	4,000
Less: Financing costs	<b>66</b>	—
Less: Current portion of long-term debt	<b>300</b>	4,000
	<b>1,734</b>	—

For the quarter and the nine-month periods ended December 31, 2020, the interest expense on long-term debt charged to loss amounted to \$24 and \$33, respectively [\$61 and \$364, respectively, including amounts of \$0 and \$147 accounted for as an accretion expense for the quarter and the nine-month periods ended December 31, 2019].



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## 7. EQUITY

### 7.1 Share capital

Class A common shares of the Corporation as at December 31, 2020 and March 31, 2020 are summarized in the following table:

	December 31, 2020		March 31, 2020	
	#	\$	#	\$
<b>Balance</b>	<b>175,950,573</b>	<b>62,762</b>	175,950,573	62,762

### 7.2 Share-based payments

Changes in the Corporation's stock options for the nine-month periods ended December 31, 2020 and 2019 are summarized in the following table:

	2020		2019	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
<b>Balance as at March 31</b>	<b>14,533,289</b>	<b>0.24</b>	15,807,100	0.35
Options granted	—	—	1,990,000	0.14
Options cancelled	(843,333)	0.16	(4,253,711)	0.48
Options expired	(200,000)	0.42	(200,000)	0.47
<b>Balance as at December 31</b>	<b>13,489,956</b>	<b>0.24</b>	13,343,389	0.28
<b>Options exercisable at end of period</b>	<b>10,052,784</b>	<b>0.29</b>	10,101,472	0.31

For the quarter and the nine-month periods ended December 31, 2020, the share-based compensation expense charged to loss amounted to \$19 and \$96, respectively [\$55 and \$116, respectively for the quarter and the nine-month periods ended December 31, 2019], with a corresponding amount recognized under share-based payments reserve. For the quarter and the nine-month periods ended December 31, 2020, the cancellation and expiry of options resulted in a reclassification of \$81 [\$3,271 in 2019] from the share-based payments reserve to the deficit.

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**7.3 Warrants**

Warrants for the nine-month periods ended December 31, 2020 and 2019 are summarized as follows:

	2020		2019	
	Number #	Exercise Price \$	Number #	Exercise Price \$
Expired on August 5, 2019	—	—	—	(a)
Expiring on December 22, 2022	2,000,000	(b)	2,000,000	(b)
<b>Balance</b>	<b>2,000,000</b>		<b>2,000,000</b>	

- (a) On August 5, 2019, 4,500,000 warrants expired. An amount of \$528, representing the initial fair value of the warrants was credited to deficit and deducted from the warrants reserve.
- (b) Exercise price corresponds to the volume weighted average price of Class A common shares on the Toronto Stock Exchange for the five trading days prior to the exercise date of the warrants. All warrants were vested as at December 31, 2020 and 2019.

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

**8.1 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	
	2020 \$	2019 \$	2020 \$	2019 \$
Cost of parts and components	1,212	1,452	2,963	5,793
Employee costs	173	294	340	909
Professional fees	9	8	9	58
Other	198	155	771	447
	<b>1,592</b>	<b>1,909</b>	<b>4,083</b>	<b>7,207</b>

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**8.2 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	811	1,250	1,707	4,042
Professional fees	222	232	403	618
Advertising, travel and trade show	74	71	134	749
Amortization of property and equipment	258	43	336	139
Restructuring costs	—	428	(414)	428
Other	175	320	450	953
	<b>1,540</b>	<b>2,344</b>	<b>2,616</b>	<b>6,929</b>

During the second quarter ended September 30, 2020, a restructuring provision amounting to \$414 was reversed as it was no longer required.

**8.3 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	602	349	1,160	1,837
Professional fees	182	231	606	710
Amortization of property and equipment and intangible assets	176	138	396	436
Restructuring costs	—	575	—	575
Other	146	236	557	783
	<b>1,106</b>	<b>1,529</b>	<b>2,719</b>	<b>4,341</b>

**D-BOX Technologies Inc.**  
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**8.4 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee costs	503	331	815	1,326
Amortization of property and equipment and intangible assets	35	39	115	122
Tax credits	—	(40)	(32)	(188)
Investment tax credit reversal	—	—	—	115
Other	(3)	360	314	693
	<b>535</b>	<b>690</b>	<b>1,212</b>	<b>2,068</b>

**8.5 Government assistance**

For the quarter and nine-month period ended December 31, 2020, the Corporation recognized government assistance amounting to \$335 and \$1,921 related to the Canada Emergency Wage Subsidy. Amounts of \$330 and \$1,808 were recorded as a reduction of operating expenses and an amount of \$113 was recognized as a reduction of intangible assets. The Corporation also recognized government assistance amounting to \$28 and \$28 related to the Canada Emergency Rent Subsidy for the quarter and nine-month period ended December 31, 2020, and these amounts were recorded as a reduction of operating expenses. An amount of \$299 was included in accounts receivable as at December 31, 2020 for both subsidies.