

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

September 30, 2021

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	September 30, 2021 \$	March 31, 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		6,793	9,134
Accounts receivable		5,422	2,341
Derivative financial instruments		—	169
Inventories	3	4,346	4,547
Prepaid expenses and deposits		889	606
Current portion of finance leases receivable		67	31
		17,517	16,828
Non-current assets			
Property and equipment		3,235	3,762
Intangible assets		2,372	2,229
Finance leases receivable		288	401
Other assets		477	516
		23,889	23,736
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	4	3,010	2,898
Accounts payable and accrued liabilities		3,794	3,518
Derivative financial instruments		33	—
Warranty provision		70	55
Deferred revenues		645	675
Current portion of lease liabilities		269	318
Current portion of long-term debt	5	500	400
		8,321	7,864
Non-current liabilities			
Lease liabilities		590	700
Long-term debt	5	3,149	1,641
		12,060	10,205
Equity			
Share capital	6.1	66,227	66,227
Share-based payments reserve	6.2	1,143	2,190
Warrants reserve	6.3	1,355	1,355
Foreign currency translation reserve		(152)	(115)
Deficit		(56,744)	(56,126)
		11,829	13,531
		23,889	23,736

See accompanying notes.

D-BOX Technologies Inc.**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**

Quarters and six-month periods ended September 30

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

		Second Quarter		Six Months	
	Notes	2021	2020	2021	2020
		\$	\$	\$	\$
Revenues					
System sales		4,317	2,668	6,868	4,800
Rights for use, rental and maintenance		1,284	249	1,896	346
		5,601	2,917	8,764	5,146
Cost of goods sold excluding amortization	7.1	2,476	1,612	3,778	2,491
Amortization related to cost of goods sold		292	434	636	877
Cost of goods sold		2,768	2,046	4,414	3,368
Gross profit		2,833	871	4,350	1,778
Other expenses					
Selling and marketing	7.2	1,490	489	2,638	1,075
Administration	7.3	1,085	752	2,102	1,612
Research and development	7.4	619	408	1,138	677
Foreign exchange gain		(26)	(335)	(1)	(270)
		3,168	1,314	5,877	3,094
Loss before financial expenses (income) and income taxes		(335)	(443)	(1,527)	(1,316)
Financial expenses (income)					
Financial expenses	7.5	87	101	246	198
Interest income		(2)	(3)	(8)	(7)
		85	98	238	191
Loss before income taxes		(420)	(541)	(1,765)	(1,507)
Income taxes (recovery)		1	(1)	—	(1)
Net loss		(421)	(540)	(1,765)	(1,506)
<i>Items that will be reclassified to net loss in subsequent periods:</i>					
Foreign currency translation gain (loss)		72	46	(37)	215
Comprehensive loss		(493)	(494)	(1,802)	(1,291)
Basic and diluted net loss per share		(0.002)	(0.003)	(0.008)	(0.009)
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**

Six-month periods ended September 30, 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		—	—	—	—	(1,765)	(1,765)
Foreign currency translation gain		—	—	—	(37)	—	(37)
Comprehensive loss		—	—	—	(37)	(1,765)	(1,802)
Share-based payments	6.2	—	100	—	—	—	100
Cancellation and expiration of stock options	6.2	—	(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, 2020		62,762	2,149	—	(514)	(50,047)	14,350
Net loss		—	—	—	—	(1,506)	(1,506)
Foreign currency translation gain		—	—	—	215	—	215
Comprehensive income (loss)		—	—	—	215	(1,506)	(1,291)
Share-based payments	6.2	—	77	—	—	—	77
Cancellation and expiration of stock options	6.2	—	(76)	—	—	76	—
Balance as at September 30, 2020		62,762	2,150	—	(299)	(51,477)	13,136

See accompanying note.

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

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

	Notes	2021 \$	2020 \$
OPERATING ACTIVITIES			
Net loss		(1,765)	(1,506)
Items not affecting cash			
Amortization of property and equipment		574	876
Amortization of intangible assets		406	380
Amortization of financing cost		15	—
Share-based payments	6.2	100	77
Change in fair value of derivative financial instruments		202	(804)
Unrealized foreign exchange gain		(121)	(134)
Employee benefit liability		—	(509)
Cash flows used in operations before changes in working capital items		(589)	(1,620)
Changes in working capital items:			
Accounts receivable		(2,295)	2,343
Inventories		201	875
Prepaid expenses and deposits		(283)	(304)
Other assets		39	44
Accounts payable and accrued liabilities		282	(1,096)
Warranty provision		15	(1)
Deferred revenues		(30)	3
Cash flows (used in) provided by operating activities		(2,071)	1,864
Cash flows (used in) provided by operating activities		(2,660)	244
INVESTING ACTIVITIES			
Payments on finance leases receivable		77	12
Additions to property and equipment		(47)	(2)
Additions to intangible assets		(549)	(219)
Cash flows used in investing activities		(519)	(209)
FINANCING ACTIVITIES			
Repayment of credit facility		—	(984)
Payment of lease liabilities		(159)	(149)
Repayment of long-term debt		(100)	(4,000)
Proceeds from credit facility		112	4,000
Proceeds from long-term debt net of financing costs paid		963	1,928
Cash flows provided by financing activities		816	795
Effect of exchange rate fluctuations on cash and cash equivalents		22	33
Net change in cash and cash equivalents		(2,341)	863
Cash and cash equivalents, beginning of period		9,134	4,116
Cash and cash equivalents, end of period		6,793	4,979
Cash and cash equivalents consist of:			
Cash		6,320	1,350
Cash equivalents		473	3,629
Interest and income taxes included in operating activities:			
Interest paid		126	105
Income tax paid		—	1

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 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 November 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, 2021 annual consolidated financial statements which include the same accounting policies and methods of computation used in the preparation of these financial statements.

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3. INVENTORIES

	September 30, 2021	March 31, 2021
	\$	\$
Parts and components	3,591	3,463
Finished goods	755	1,084
	4,346	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 September 30, 2021 was \$3,010. This line of credit is renewable annually and bears interest at prime rate plus 3.25% [5.70% as of September 30, 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 September 30, 2021, the Corporation was in compliance with the financial ratios required under the facility.

5. LONG-TERM DEBT

	September 30, 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.	1,900	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 2021.	100	100

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	September 30, 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 September 30, 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.	731	—
	3,731	2,100
Less: Financing costs	82	59
Less: Current portion	500	400
	3,149	1,641

Debt payments for the next years are as follows:

	\$
2022	300
2023	501
2024	1,569
2025	1,011
2026	169
Thereafter	296
	3,846

For the quarter and the six-month periods ended September 30, 2021, the interest expense on long-term debt charged to net loss amounted to \$27 and \$51, respectively [\$48 and \$96 for the quarter and the six-month periods ended September 30, 2020].

As at September 30, 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.

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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, 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 six-month periods ended September 30, 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	(302,500)	0.17	(405,000)	0.16
Options expired	(421,000)	0.62	(200,000)	0.42
Balance as at September 30	11,883,534	0.16	13,928,289	0.24
Options exercisable at end of period	6,546,537	0.22	9,836,951	0.29

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For the quarter and the six-month periods ended September 30, 2021, the share-based compensation expense charged to loss amounted to \$52 and \$100, respectively [\$31 and \$77, respectively, for the quarter and the six-month periods ended September 30, 2020], with a corresponding amount recognized under share-based payments reserve. For the quarter and the six-month periods ended September 30, 2021, the cancellation and expiry of options resulted in a reclassification of \$1,147 [\$76 in 2020] from the share-based payments reserve to the deficit.

The fair value for options granted during the six-month period ended September 30, 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 six-month periods ended September 30, 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 September 30	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 September 30, 2021.

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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 six-month periods ended September 30:

	Second Quarter		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Cost of parts and components	1,835	1,165	2,996	1,940
Employee costs	207	92	456	168
Professional fees	6	—	6	—
Other	458	491	481	572
Government assistance	(30)	(136)	(161)	(189)
	2,476	1,612	3,778	2,491

7.2 *Selling and Marketing*

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

	Second Quarter		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	1,013	817	2,085	1,418
Professional fees	206	117	393	181
Advertising, travel and trade show	171	27	244	60
Amortization of property and equipment	29	35	57	77
Other	147	244	246	276
Government assistance	(76)	(337)	(387)	(523)
Restructuring costs	—	(414)	—	(414)
	1,490	489	2,638	1,075

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7.3 Administration

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

	Second Quarter		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	615	520	1,274	935
Professional fees	223	254	421	359
Amortization of property and equipment and intangible assets	101	83	210	222
Other	316	125	567	473
Government assistance	(170)	(230)	(370)	(377)
	1,085	752	2,102	1,612

7.4 Research and development

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

	Second Quarter		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Employee costs	417	525	1,015	990
Professional fees	85	5	94	23
Amortization of property and equipment and intangible assets	39	39	77	80
Tax credits	—	(32)	(20)	(32)
Other	116	110	172	16
Government assistance	(38)	(239)	(200)	(400)
	619	408	1,138	677

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7.5 Financial expenses

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

	Second Quarter		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest expense on long-term debt	27	48	51	96
Interest expense on credit facility	25	9	74	9
Interest expense on lease liabilities	15	19	29	39
Amortization of financing costs	8	—	14	—
Other interest and bank charges	12	25	78	54
	87	101	246	198

7.6 Government assistance

For the quarter and six-month period ended September 30, 2021, the Corporation recognized government assistance amounting to \$196 and \$995, respectively, [\$994 and \$1,587, respectively, for the quarter and six-month period ended September 30, 2020] related to the Canada Emergency Wage Subsidy. Amounts totalling \$179 and \$923, respectively, [\$942 and \$1,489 for the quarter and six-month period ended September 30, 2020] were recorded as a reduction of operating expenses for the quarter and six-month period ended September 30, 2021, and an amount totalling \$72 [\$98 for the quarter and six-month period ended September 30, 2020] was recorded as a reduction of intangible assets for the quarter and six-month period ended September 30, 2021.

The Corporation also recognized government assistance amounting to \$20 and \$80, respectively, related to the Canada Emergency Rent Subsidy for the quarter and six-month period ended September 30, 2021, 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 six-month period ended September 30, 2021 [nil for 2020], and this amount was recorded as a reduction of administration expenses.

An amount of \$251 related to government assistance was included in accounts receivable as at September 30, 2021 [\$303 as at March 31, 2021].