

Unaudited Interim Condensed Consolidated
Financial Statements

D-BOX Technologies Inc.

For the three months ended June 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]

	Notes	June 30, 2022 \$	March 31, 2022 \$
ASSETS			
Current assets			
Cash and cash equivalents		3,826	3,937
Accounts receivable		6,116	6,441
Derivative financial instruments		—	32
Inventories	4	6,114	5,163
Prepaid expenses and deposits		704	691
Current portion of finance leases receivable		120	97
		16,880	16,361
Non-current assets			
Property and equipment		2,845	3,051
Intangible assets		2,245	2,162
Finance leases receivable		336	379
Other assets		398	397
		22,704	22,350
LIABILITIES AND EQUITY			
Current liabilities			
Credit facility	6	1,080	1,060
Accounts payable and accrued liabilities	5	3,781	4,135
Derivative financial instruments		78	—
Warranty provision		80	70
Deferred revenues		1,787	1,094
Current portion of lease liabilities		228	223
Current portion of long-term debt	7	669	601
		7,703	7,183
Non-current liabilities			
Lease liabilities		424	483
Long-term debt	7	2,706	2,850
		10,833	10,516
Equity			
Share capital	8.1	66,227	66,227
Share-based payments reserve	8.2	1,263	1,220
Warrants reserve		1,355	1,355
Foreign currency translation reserve		(174)	(137)
Deficit		(56,800)	(56,831)
		11,871	11,834
		22,704	22,350

Subsequent events [note 10]

See accompanying notes.

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

First quarters ended June 30

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

	Notes	2022 \$	2021 \$ (Restated Note 3)
Revenues			
System sales		4,321	2,551
Rights for use, rental and maintenance		2,792	612
		7,113	3,163
Cost of goods sold			
Cost of goods sold excluding amortization		2,822	1,445
Amortization related to cost of goods sold		328	344
Cost of goods sold		3,150	1,789
Gross profit		3,963	1,374
Other expenses			
Selling and marketing		1,546	1,005
Administration	5	1,554	1,017
Research and development		859	519
Foreign exchange (gain) loss		(138)	25
		3,821	2,566
Profit (loss) before financial expenses (income) and income taxes		142	(1,192)
Financial expenses (income)			
Financial expenses	9.1	106	159
Interest income		—	(6)
		106	153
Profit (loss) before income taxes		36	(1,345)
Income taxes (recovery)		7	(1)
Profit (loss)		29	(1,344)
<i>Items that will be reclassified to profit or loss:</i>			
Foreign currency translation (loss) gain		(37)	35
Comprehensive loss		(8)	(1,309)
Basic and diluted profit (loss) per share		0.000	(0.006)
Weighted average number of common shares outstanding		220,225,573	220,225,573

See accompanying notes.

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

First quarters ended June 30
[in thousands of Canadian dollars]

	Notes	Share capital \$	Share- based payments reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total \$
Balance as at March 31, 2021		66,227	2,190	1,355	(115)	(56,126)	13,531
Net loss		—	—	—	—	(1,344)	(1,344)
Foreign currency translation gain		—	—	—	35	—	35
Comprehensive loss		—	—	—	35	(1,344)	(1,309)
Share-based payments	8.2	—	48	—	—	—	48
Cancellation and expiration of stock options	8.2	—	(207)	—	—	207	—
Balance as at June 30, 2021		66,227	2,031	1,355	(80)	(57,263)	12,270
Balance as at March 31, 2022		66,227	1,220	1,355	(137)	(56,831)	11,834
Profit		—	—	—	—	29	29
Foreign currency translation loss		—	—	—	(37)	—	(37)
Comprehensive loss		—	—	—	(37)	29	(8)
Share-based payments	8.2	—	45	—	—	—	45
Cancellation and expiration of stock options	8.2	—	(2)	—	—	2	—
Balance as at June 30, 2022		66,227	1,263	1,355	(174)	(56,800)	11,871

See accompanying notes.

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

First quarters ended June 30
[in thousands of Canadian dollars]

Notes	2022 \$	2021 \$
OPERATING ACTIVITIES		
Profit (loss)	29	(1,344)
Items not affecting cash		
Amortization of property and equipment	248	297
Amortization of intangible assets	230	224
Amortization of financing costs	12	7
Share-based payments	8.2 123	48
Change in fair value of derivative financial instruments	110	56
Unrealized foreign exchange (gain) loss	(114)	105
Accretion of interest expense	7	—
Cash flows provided by (used in) operations before changes in working capital items	645	(607)
Changes in working capital items:		
Accounts receivable	439	(1,088)
Inventories	(951)	(409)
Prepaid expenses and deposits	(13)	(100)
Other assets	(1)	3
Accounts payable and accrued liabilities	(489)	322
Warranty provision	10	6
Deferred revenues	693	96
	(312)	(1,170)
Cash flows provided by (used in) operating activities	333	(1,777)
INVESTING ACTIVITIES		
Payments on finances leases receivable	22	74
Additions to property and equipment	(40)	(18)
Additions to intangible assets	(312)	(269)
Cash flows used in investing activities	(330)	(213)
FINANCING ACTIVITIES		
Increase (repayment) of credit facility	20	(365)
Repayment of long-term debt	(100)	—
Payment of lease liabilities	(54)	(79)
Cash flows used in financing activities	(134)	(444)
Effect of exchange rate fluctuations on cash and cash equivalents	20	—
Net change in cash and cash equivalents	(111)	(2,434)
Cash and cash equivalents, beginning of period	3,937	9,134
Cash and cash equivalents, end of period	3,826	6,700
Cash and cash equivalents consist of:		
Cash	3,826	1,634
Cash equivalents	—	5,066
Interest and income taxes included in operating activities:		
Interest paid	65	75

See accompanying notes.

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
June 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 domiciled at 2172 de la Province Street, Longueuil, Québec, Canada.

D-BOX designs, manufactures and commercializes cutting-edge haptic motion systems intended for the entertainment and simulation and training markets. This unique and patented technology uses motion effects specifically programmed for each visual content, which are sent to a motion system integrated into either a platform, a seat or any other product. The resulting motion is perfectly synchronized with the on-screen action, thus creating an unparalleled realistic immersive experience.

The Corporation evaluates its operating results and allocates resources based on its single operating segment which is the design, manufacture and sale of cutting-edge motion systems.

The unaudited interim condensed consolidated financial statements were approved by the Corporation’s Board of Directors on August 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.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
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[Amounts are in thousands of Canadian dollars, except share, option, warrant, per-share and per-option amounts]

3. AMENDED AND RESTATED COMPARATIVE
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND
COMPREHENSIVE LOSS

Management of the Corporation determined that a retrospective adjustment to the presentation of the unaudited interim consolidated statement of profit (loss) and comprehensive loss to reclassify the production costs of haptic coding expenses from selling and marketing expenses to cost of goods sold during the third quarter ended December 31, 2021 had not been applied to the comparative information of the unaudited interim consolidated statement of profit (loss) and comprehensive loss for the first quarter ended June 30, 2022.

The Corporation has restated its previously issued unaudited interim condensed consolidated financial statements as at and for the three-month period ended June 30, 2022 as a result of the above. The impact of the reclassification is as follows:

	First quarter ended June 30, 2021		
	As previously reported	Adjustment	Restated
Cost of goods sold excluding amortization	1,302	143	1,445
Cost of goods sold	1,646	143	1,789
Gross profit	1,517	(143)	1,374
Other expenses			
Selling and marketing	1,148	(143)	1,005
Other expenses total	2,709	(143)	2,566

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]

4. INVENTORIES

	June 30,	March 31,
	2022	2022
	\$	\$
Parts and components ⁽¹⁾	5,448	4,193
Finished goods	666	970
	6,114	5,163

⁽¹⁾ As at June 30, 2022, parts and components include \$1,511 [\$1,320 as of March 31, 2022] of deposits related to the purchase of parts and components which cannot be redeemed for cash.

5. 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 settlement date. RSU share units vest three years after the grant date and are redeemed for cash or shares at the vesting date or under certain conditions. 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. Any change in fair value is recognized in the consolidated statements of profit (loss) and comprehensive loss.

	June 30, 2022		March 31, 2022	
	RSU Share	DSU Share	RSU Share	DSU Share
	Units	Units	Units	Units
Balance, beginning of period	—	80,000	—	80,000
Units granted	744,208	—	—	—
Balance, end of period	744,208	80,000	—	80,000
Units exercisable at end of period	—	80,000	—	80,000

For the three-month period ended June 30, 2022, the share-based payment expense included in administration expense amounted to \$78 [\$nil for the quarter ended June 30, 2021]. As at June 30, 2022, an amount of \$78 was accounted for in accounts payable and accrued liabilities [\$nil as at March 31, 2022].

D-BOX Technologies Inc.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
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[Amounts are in thousands of Canadian dollars, except share, option, warrant, per-share and per-option amounts]

6. 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 the ongoing operations and working capital of the Corporation. The balance as of June 30, 2022 was \$1,080. This line of credit is renewable annually and bears interest at prime rate [6.95% as of June 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 at June 30, 2022, the Corporation was in compliance with the financial ratios required under the facility.

7. LONG-TERM DEBT

	June 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 [5.80% as of June 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.	1,600	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.	1,000	1,000

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

	June 30, 2022	March 31, 2022
	\$	\$
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. The discounting is recognized as government assistance and recorded as a reduction of administration expenses.	755	743
	3,455	3,543
Less: Financing costs	80	92
Less: Current portion of long-term debt	669	601
	2,706	2,850

Debt payments for the next years are as follows:

	\$
2023	669
2024	669
2025	1,386
2026	569
2027	169
Others	85
	3,547
Less: discounting	92
	3,455

As at June 30, 2022, the interest expense on long-term debt charged to profit (loss) amounted to \$41 [\$24 for the quarter ended June 30, 2021].

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8. EQUITY

8.1 Share-capital

8.1.1 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].

8.1.2 Issued

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

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8.2 Share-based payments

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

	2022		2021	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	#	\$	#	\$
Balance as at March 31	12,691,034	0.15	12,582,034	0.18
Options granted	—	—	25,000	0.12
Options cancelled and expired	(489,333)	0.23	(698,500)	0.40
Balance as at June 30	12,201,701	0.15	11,908,534	0.16
Options exercisable at end of period	7,037,370	0.18	6,128,196	0.22

For the quarter ended June 30, 2022, the share-based payment expense charged to profit (loss) amounted to \$45 [\$48 for the quarter ended June 30, 2021] with a corresponding amount recognized under share-based payments reserve. For the quarter ended June 30, the cancellation and expiry of options resulted in reclassification of \$2 [\$207 for the quarter ended June 30, 2021] from the share-based payments reserve to the deficit.

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]

9. SUPPLEMENTARY INFORMATION ON THE UNAUDITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS
OF PROFIT AND COMPREHENSIVE INCOME

9.1 Financial expenses

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

	2022	2021
	\$	\$
Interest expense on long-term debt	41	24
Interest expense on credit facility	24	50
Interest expense on lease liabilities	10	15
Amortization of financing costs	12	7
Other interest and bank charges	19	63
	106	159

9.2 Government assistance

For the periods ended June 30, 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 \$nil for the period ended June 30, 2022 [\$54 for the period ended June 30, 2021]. The remaining funding has been recorded as a reduction of the related expenses as follows for the three-month periods ended June 30:

	2022	2021
	\$	\$
Cost of goods sold excluding amortization	—	132
Selling and marketing	125	311
Administration	—	200
Research and development	34	162
	159	805

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]

10. SUBSEQUENT EVENT

On July 8, 2022, the Corporation signed an agreement with the National Bank of Canada [“NBC”] related to a loan amounting to \$1,000 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 from the 6th 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”].