Management's Discussion and Analysis

D-BOX Technologies Inc.
Fiscal Year Ended March 31, 2023

Table of Contents

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS
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1. SCOPE OF THE MD&A

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 fourth quarter and fiscal year ended March 31, 2023, by comparing them to the results of the corresponding periods of the previous fiscal year. It also presents a comparison of the balance sheets as at March 31, 2023 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, 2023 and accompanying notes. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The annual audited consolidated financial statements for the fiscal year ended March 31, 2023 and this MD&A have been reviewed by the Audit Committee, and approved by the Board of Directors of the Corporation on May 31, 2023. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

2. FORWARD-LOOKING STATEMENTS

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; concentration of clients; indebtedness; future funding requirements; access to content; global health crises; performance of content; distribution network; strategic alliances; competition; political, social and economic conditions; 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, 2023, a copy of which is available on SEDAR at 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.

3. CORPORATE OVERVIEW

D-BOX is a leader in the design of haptic and immersive experiences. 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 content. Whether it's movies, TV series, video games, virtual reality, music, themed entertainment or professional simulation, D-BOX's motion 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 can 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, consists, amongst other things, of proprietary electromechanical actuators built into a seat, platform, or other type of equipment.

The Corporation's current revenue streams mainly consist of:

(i) the sale or lease of D-BOX hardware including haptic seats, haptic bases that are integrated into recliners or seats, haptic controllers and electronic interfaces or servers, and the sale of actuators to resellers, integrators, and equipment or seating manufacturers who incorporate and market the D-BOX technology under their own brands (known as original equipment manufacturers ("**OEMs**");

(ii) the licensing of the D-BOX Haptic Code in commercial theatres and entertainment centres which are equipped with the D-BOX haptic systems to play content encoded by D-BOX. The Corporation also receives maintenance revenue relating to the use of the haptic systems;

(iii) the licensing of the D-BOX Haptic Code for home entertainment.

As of March 31, 2023, D-BOX had 97 employees compared with 90 employees as of March 31, 2022.

3.1 Business Strategy

The Corporation's operations are primarily conducted in six areas, split into two markets:

Commercial Market

The commercial market includes (i) theatrical entertainment, (ii) commercial entertainment (which are projects related to location-based entertainment centres, theme parks, arcades, museums, planetariums and commercial theatres) and (iii) simulation and training. D-BOX offers its products and services to the commercial market through channel partners, including original equipment manufacturers ("OEMs"), integrators and value-added resellers and distributors. Key components of the Corporation's business strategy in the commercial market are as follows:

- Continue to enhance and develop D-BOX's haptic motion technology in order to maintain our presence as a leader in seated haptic and immersive experiences;
- Expand and drive growth across all areas in the commercial market;
- Continue to scale theatrical entertainment by extending existing capabilities and infrastructure;
- Focus on operational excellence by controlling operating costs while continuing to provide leading haptic experiences.

Home Entertainment Market

The haptic experience at home is growing rapidly and major technology companies are starting to look at this market to differentiate their own product offerings. D-BOX, with more than 20 years of experience is well established to support new players. The Home Entertainment Market includes (i) video game peripherals (which includes video gaming chairs, video game controllers and sim racing peripherals and accessories), (ii) virtual reality ("VR") systems, and (iii) home theater and home seating furniture. Key components of the Corporation's business strategy in the home entertainment market are as follows:

- The strategy is to enter into business partnerships with market leaders in these markets to integrate the D-BOX haptic experience in their products and to commercialize new products and applications. D-BOX will continue to develop the haptic experience with these partners in order to develop new products and applications for use by consumers that will integrate the D-BOX haptic experience.

3.2 Key Developments

The following describes certain key business initiatives undertaken and results achieved during the fiscal year ended March 31, 2023:

- Reported annual revenues of $34.1 million, an increase of $12.8 million (60%) from $21.3 million in 2022.
- Signed a licensing agreement to commercialize a Mercedes-Benz and Mercedes-AMG multipurpose platform.
- Signed an agreement with Trak Racer to combine haptic technology with a high-quality chassis equipped with five actuators allowing for four degrees of motion freedom. The new chassis was developed during the year and is ready to be sold at year end.
- Obtained licensing rights and began development to commercialize the first high-fidelity, multipurpose haptic platform targeting consumers and car dealerships.
- Deployed an additional 1,310 seats in front of 70 cinema screens, expanding its theatrical footprint to a total of 19,412 seats in front of 818 cinema screens around the world.
- Appointed Sébastien Boire-Lavigne as Chief Technology Officer who is now responsible for the Corporation's technological needs, the engineering department, and the innovation department.

4. MESSAGE TO SHAREHOLDERS

Message from the Chair of the Board

Dear fellow shareholders,

The Board of Directors is committed to ensuring our company is aligned with shareholder interests and that we have a strong and capable management team to lead us towards success. While there were many operational accomplishments in fiscal 2023, none of them matter if we cannot ultimately deliver sustainable, profitable growth and create long-term value for our shareholders. On that note, this past year was an encouraging one for D-BOX as we achieved strong revenue growth of 60% and delivered Adjusted EBITDA of $1.8 million.

While the COVID-19 pandemic hampered the execution of our strategy in fiscal 2021 and much of fiscal 2022, we laid the groundwork for our success this past year. As a result, D-BOX is poised for growth across multiple key markets. The Board supports the management team as they continue to strengthen D-BOX's leadership position in the theatrical market, launch new revenue streams in sim racing, and target opportunities in video gaming. But there are many applications beyond these three strategic market verticals. Haptics is a multi-billion-dollar global market and significant growth is also expected to come from metaverse applications, simulation and training, and automotive. In fiscal 2023, D-BOX launched G5 – our latest generation of haptic systems, which enables seamless integration of our technology in many more devices, better enabling D-BOX to target a much larger addressable market with its haptic technology ecosystem.

In fiscal 2023, we strengthened the management team, appointing Sébastien Boire-Lavigne as Vice-President, Technology, allowing Robert Desautels to take on a new role as Vice President, Business Development and Strategic Partnerships (I should note, that already in fiscal 2024 we promoted Sébastien Boire-Lavigne to our new Chief Technology Officer role). We also promoted Karen Mendoza to Vice President Sales for all commercial and residential markets. She joined D-BOX in January of 2022, bringing a wealth of experience in developing business markets for entertainment, gaming and eSports organizations. We have a talented and experienced management team in place, and I am confident in their ability to drive the company forward.

This past year was also important from an ESG (environmental, social, and governance) perspective as we adopted a clear vision for reducing our environmental footprint and ensuring the company's sustainability. Of note, D-BOX launched a recycling campaign for our used products (helping to alleviate the sourcing of new components) and implemented a metal recycling and recovery program.

As we celebrate our 25th anniversary, I want to take this opportunity to thank our shareholders for their continued support and trust in our vision over the years. I also want to emphasize our dedication to maximizing shareholder value. The Board understands that your investment in D-BOX is a vote of confidence, and we take this responsibility seriously. We believe that our strategy, alignment with shareholders, and support of management will lead to continued success for D-BOX.

Sincerely,

Signed:
Denis Chamberland
Chair of the Board

Message from the President and Chief Executive Officer

Dear fellow shareholders,

This past year was an encouraging year for D-BOX. While the COVID-19 pandemic affected much of our business and its core markets in the two prior years, D-BOX's focus on expanding recurring revenue and driving profitable growth led to the rapid recovery of revenue and Adjusted EBITDA in fiscal 2023.

During the year, D-BOX continued to demonstrate strong growth in the theatrical market, where we continue to establish ourselves as a global leader in premium experiences. During the year, we added 1,310 seats in front of 70 cinema screens, expanding our theatrical footprint to a total of 19,412 seats in front of 818 cinema screens around the world and had our best year ever in number of tickets sold. But D-BOX is more than just a great movie theatre partner. In addition to our success in the theatrical market, we are thrilled by the traction D-BOX has been gaining in another one of our key strategic markets – racing simulation. Our push into this market and our ability to develop strong collaborations with leading partners have opened exciting growth opportunities while adding new revenue streams.

Last November, Kindred Concepts opened a new entertainment centre called F1 Arcade in London, England. The F1 Arcade provides an immersive, state-of-the-art Formula 1® racing simulation experience, gamified for a mass audience in a unique global licence agreement with Formula 1. Through collaboration with Vesaro, this venue includes 60 D-BOX-equipped racing simulators meeting F1 highest standards. Importantly, there are plans for as many as 30 F1 Arcade venues worldwide over the next five years.

This past January, D-BOX obtained Mercedes-Benz and Mercedes-AMG licensing rights to develop and commercialize a multipurpose motion platform targeting consumers and car dealerships. We also partnered with RSEAT, a leading European manufacturer of premium sim racing equipment, to design and market a high-fidelity, multipurpose haptic platform compatible with all RSEAT sim racing rigs (and most chassis from other sim racing equipment manufacturers). Both platforms are available for purchase now. Additionally, we are partnering with Trak Racer to bring D-BOX's high-fidelity haptic feedback to Trak Racer's industry-renowned chassis. We expect the exclusive chassis being developed to be available for purchase later this year.

We see video gaming as a third key strategic market. While it took longer than expected, Motion 1, the first gaming chair from Cooler Master incorporating D-BOX haptic technology, should be available to pre-order before the end of June. This ground-breaking product establishes a new standard for haptic in video gaming entertainment, both in commercial and consumer markets. Aimed at gamers of all genres and skill levels, it will provide unparalleled comfort for playing, working, and watching movies while benefiting from high-fidelity haptic movement.

We are excited about the opportunities ahead and are confident that our continued focus on innovation, creativity, and market expansion will position D-BOX for sustained profitable growth in our key strategic markets and other verticals. From integrating many more devices with our G5 haptic system to using artificial intelligence to encode a wider library of content, there remains significant potential to expand our worldwide install base and industry-leading haptic ecosystem.

I would like to thank all D-BOX employees for their commitment to our vision and operational execution, as well as our customers and partners for helping democratize D-BOX's haptic technology. Last but not least, I would like to express our gratitude to our shareholders for their continued support. Management and the Board of Directors remain committed to creating value for our shareholders, and we are confident in our ability to deliver strong financial performance. I look forward to keeping you updated on our progress.

Sincerely,
Signed:
Sébastien Mailhot
President and Chief Executive Officer

5. FINANCIAL AND OPERATING HIGHLIGHTS

Highlights for the three-month period ended March 31, 2023

- Total revenues increased 49% from $7.0 million to $10.4 million compared to the previous year.
- Rights for use, rental and maintenance revenues increased 22% from $1.6 million to $1.9 million compared to the previous year.
- Revenues related to system sales increased 57% from $5.4 million to $8.5 million compared to the previous year.
- Net income (loss) changed from a $0.2 million net income to a $0.1 million net loss compared to the previous year.
- Adjusted EBITDA* decreased from $1.0 million to $0.6 million compared to the previous year.
- Cash and cash equivalent decreased from $3.9 million as at March 31, 2022 to $3.1 million as at March 31, 2023.

Highlights for the fiscal year ended March 31, 2023

- Total revenues increased 60% from $21.3 million to $34.1 million compared to the previous year.
- Rights for use, rental and maintenance revenues increased 53% from $5.6 million to $8.5 million compared to the previous year.
- Revenues related to system sales increased 63% from $15.7 million to $25.6 million compared to the previous year.
- Net loss decreased from $1.9 million to $0.9 million compared to the previous year.
- Adjusted EBITDA* increased from $0.9 million to $1.8 million compared to the previous year.

(Amounts are in thousands of Canadian dollars)

Three-month periods and fiscal years ended March 31				
	Three-month periods		**Fiscal years**	
	2023	2022	**2023**	2022
Revenues	**10,412**	6,971	**34,122**	21,313
Net income (loss)	**(115)**	238	**(937)**	(1,867)
Adjusted EBITDA*	**648**	972	**1,782**	922
	As at March 31, 2023		As at March 31, 2022	
Cash and cash equivalents	**3,116**		3,937	

* See the "Non-IFRS Financial Performance Measures" in section 9.

6. OPERATING RESULTS

The following table shows selected significant financial information for the three-month period and fiscal year ended March 31, 2023, compared with the corresponding periods of the previous fiscal year:

(Amounts are in thousands of Canadian dollars)

	Three-month periods		Fiscal years	
	2023	2022	**2023**	2022
Revenues	**10,412**	6,971	**34,122**	21,313
Gross profit excluding amortization*	**5,164**	4,157	**17,732**	12,445
Net (loss) income	**(115)**	238	**(937)**	(1,867)
Adjusted EBITDA*	**648**	972	**1,782**	922

* See the "Non-IFRS Financial Performance Measures" in section 9.

6.1 Revenues

The following table presents the revenue information for the three-month period and fiscal year ended March 31, 2023, compared with the corresponding periods of the previous fiscal year:

(Amounts are in thousands of Canadian dollars)

	Three-month periods				Fiscal years			
	2023	2022	Var. ($)	Var. (%)	2023	2022	Var. ($)	Var. (%)
Revenues from								
System sales								
Commercial	**6,320**	4,084	2,236	55%	**19,714**	11,479	8,235	72%
Home entertainment	**2,162**	1,308	854	65%	**5,906**	4,261	1,645	39%
Total System sales	**8,482**	5,392	3,090	57%	**25,620**	15,740	9,880	63%
Rights for use, rental and maintenance	**1,930**	1,579	351	22%	**8,502**	5,573	2,929	53%
TOTAL REVENUES	**10,412**	6,971	3,441	49%	**34,122**	21,313	12,809	60%

Three-month period ended March 31, 2023

Total revenues for the three-month period ended March 31, 2023, increased 49% to $10.4 million compared with $7.0 million for the same period in the previous year. The increase was primarily due to the increase in system sales for both the commercial and home entertainment markets. Systems sales for the commercial market increased 55% to $6.3 million compared with $4.1 million for the same period in the previous year. This increase was driven by new screens in the theatrical entertainment market, delivered and installed during the period. System sales revenue for the home entertainment market increased by 65% to reach $2.2 million compared with $1.3 million for the same period in the previous year. The increase is due to expansion and growth in sim racing which is partially attributable to strategic partnerships with the Fédération Internationale de l'Automobile ("FIA") as well as increased spending in marketing (trade shows etc.), as well as organic growth of the sim racing global market.

Rights for use, rental and maintenance revenues for the three-month period ended March 31, 2023, increased 22% to $1.9 million compared with $1.6 million for the same period in the previous year. The increase is due to strong showings from highly anticipated films like *Ant-Man and the Wasp: Quantumania*, *Avatar: The Way of Water* and *John Wick: Chapter 4* which drive theater patrons to premium experiences.

Fiscal year ended March 31, 2023

Total revenues for the fiscal year ended March 31, 2023, increased 60% to $34.1 million compared with $21.3 million for the same period in the previous year.

Systems sales for the commercial market increased 72% to $19.7 million compared with $11.5 million for the same period in the previous year. This increase was driven by installation of new D-BOX equipped theatrical auditoriums during the fiscal year. During the year 70 new auditoriums were installed, as compared to only 37 in the previous year.

System sales revenue for the home entertainment market increased by 39% to reach $5.9 million compared with $4.3 million for the same period in the previous year. The increase is due to expansion and growth in sim racing which is partially attributable to strategic partnerships with the Fédération Internationale de l'Automobile ("FIA") as well as increased spending in marketing (trade shows etc.), as well as organic growth of the gaming simulator and sim racing global market.

Rights for use, rental and maintenance revenues for the fiscal year ended March 31, 2023, increased 53% to $8.5 million compared with $5.6 million for the same period in the previous year. The increase is due to strong showings from highly anticipated films like *Avatar: The Way of Water, Doctor Strange in the Multiverse of Madness* and *Top Gun: Maverick* which drove theater patrons to premium experiences.

6.2 Gross Profit

The following table reconciles gross profit to gross profit excluding amortization for the three-month period and fiscal year ended March 31, 2023, compared with the corresponding periods of the previous fiscal year:

(Amounts are in thousands of Canadian dollars)

	Three-month periods		Fiscal years	
	2023	2022	2023	2022
Revenues	**10,412**	6,971	**34,122**	21,313
Gross profit	**4,718**	3,833	**16,208**	11,146
Amortization related to cost of goods sold	**446**	322	**1,524**	1,299
Gross profit excluding amortization*	**5,164**	4,155	**17,732**	12,445
Gross margin excluding amortization*	**50%**	60%	**52%**	58%

* See the "Non-IFRS Financial Performance Measures" in section 9.

Three-month period ended March 31, 2023

For the three-month period ended March 31, 2023, gross profit increased to $4.7 million from $3.8 million for the same period in the previous year. Gross profit excluding amortization related to cost of goods sold increased to $5.2 million from $4.2 million for the same period in the previous year. Gross margin excluding amortization decreased to 50% from 60%. The decrease in gross margin is due to the higher proportion (market mix) of system sales to theatrical exhibitors and themed entertainment system sales over the two periods. Higher theatrical system sales results in a decrease to the Corporation's gross margin in the initial year of sale, followed by higher margins from rights for use fees earned in subsequent years. Theatrical exhibitor and themed entertainment system sales were more heavily impacted by logistic cost increases during the current period as compared to the same period in the previous year. Theatrical exhibitor and themed entertainment system sales accounted for 29% of total system sales for the three-month period ended March 31, 2023, compared to 6% for the same period in the previous year.

Fiscal year ended March 31, 2023

For the fiscal year ended March 31, 2023, gross profit increased to $16.2 million from $11.1 million for the same period in the previous year. Gross profit excluding amortization related to cost of goods sold increased to $17.7 million from $12.4 million for the same period in the previous year. Gross margin excluding amortization decreased to 52% from 58% for the same period in the previous year. The decrease is explained by the higher proportion (market mix) of sales to theatrical exhibitors and themed entertainment system sales over the two periods, offset by the growth of rights for use, rental and maintenance revenues that generate a higher margin.

6.3 Operating Expenses

The following table summarizes the evolution of expenses for the three-month period and fiscal year and ended March 31, 2023, compared with the corresponding periods of the previous fiscal year:

(Amounts are in thousands of Canadian dollars)

	Three-month periods			Fiscal years		
	2023	2022	**Var. (%)**	**2023**	2022	**Var. (%)**
Selling and marketing	**1,764**	1,374	28%	**6,485**	5,103	27%
% of Revenues	17%	20%		19%	24%	
Administration	**1,867**	1,380	35%	**6,620**	4,966	33%
% of Revenues	18%	20%		19%	23%	
Research and development	**1,059**	643	65%	**3,775**	2,319	63%
% of Revenues	10%	9%		11%	11%	
Foreign exchange loss (gain)	**40**	99	-60%	**(30)**	50	-160%
% of Revenues	0%	1%		0%	0%	

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 March 31, 2023, selling and marketing expenses increased by 28% to $1.8 million (17% of revenues) compared with $1.4 million (20% of revenues) for the same period last year. The increase is a result of marketing initiatives and participation in trade shows, business development events and travel focused in the theatrical and sim racing markets.

For the fiscal year ended March 31, 2023, selling and marketing expenses increased by 27% to $6.5 million (19% of revenues) compared with $5.1 million (24% of revenues) for the same period last year. The increase is a result of business recovery. The increase is also due to marketing initiatives and participation in trade shows, business development events and travel focused in the theatrical and sim racing markets.

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 March 31, 2023, administration expenses increased by 35% to $1.9 million (18% of revenues) from $1.4 million (20% of revenues) for the same period last year. The change was primarily due to a $0.3 million increase in payroll expenses and a $0.2 million increase in professional fees as compared to the same period last year.

For the fiscal year ended March 31, 2023, administration expenses increased by 33% to $6.7 million (19% of revenues) from $5.0 million (23% of revenues) for the same period last year. The variance is due to increased headcount as well as decreased government assistance received for the fiscal year as compared to the same period last year.

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 March 31, 2023, research and development expenses increased by 65% to $1.1 million (11% of revenues) from $0.6 million (9% 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 fiscal year ended March 31, 2023, research and development expenses increased by 63% to $3.8 million (11% of revenues) from $2.3 million (11% 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.

Impairment (reversal): For the three-month period and fiscal year ended March 31, 2023, the Corporation recognized an impairment reversal due to an assessment of the recoverable amounts of the goods held for lease related to motion systems for commercial theatres. 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 $0.2 million compared to an impairment charge of $0.2 million for the same period last year.

Foreign exchange (gain) 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 and fiscal year ended March 31, 2023, foreign exchange (gain) loss amounted to a $0.04 million loss and $0.03 million gain respectively compared with a $0.1 million and $0.05 million loss, respectively, for the corresponding period last year. The foreign exchange difference was driven by the volatility and weakening of the Canadian dollar relative to the U.S. currency between the periods.

Government assistance: For the three-month period and fiscal year ended March 31, 2023, the Corporation recognized government assistance from various governmental entities in the amount of $0.3 million and $0.9 million respectively ($nil and $1.3 million for the same periods 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 $0.02 million and $0.1 million for the three-month period and fiscal year ended March 31, 2023 respectively ($nil and $0.1 million for the same periods last year).

6.4 Financial Expenses

For the three-month period ended March 31, 2023, financial expenses net of interest income amounted to $153 thousand compared with $99 thousand for the same period in the previous year. The increase in financial expenses is due to increases in interest rates on variable interest long term debt and the credit facility.

For the fiscal year ended March 31, 2023, financial expenses net of interest income amounted to $504 thousand compared with $396 thousand for the same period in the previous year.

6.5 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.

6.6 Profit (Loss)

Net loss for the three-month period ended March 31, 2023, amounted to $115 thousand (basic and diluted net loss of $0.001 per share) compared with a net income of $238 thousand (basic and diluted net income of $0.001 per share) for the same period in the previous year.

For the fiscal year ended March 31, 2023, net loss amounted to $1.1 million (basic and diluted net loss of $0.005 per share) compared with a net loss of $1.9 million (basic and diluted net loss of $0.009 per share) for the same period in the previous year.

7. 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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rights for use, rental and maintenance	**1,930**	2,009	1,771	2,792	1,579	2,098	1,284	612
System sales	**8,482**	8,446	4,371	4,321	5,392	3,480	4,317	2,551
TOTAL REVENUES	**10,412**	10,455	6,142	7,113	6,971	5,578	5,601	3,163
Adjusted EBITDA*	**648**	491	38	605	972	402	150	(599)
Net (loss) income	**(115)**	(110)	(743)	29	238	(340)	(421)	(1,344)
Basic and diluted net income (loss) per share (in thousands)	**(0.001)**	(0.000)	(0.003)	0.000	0.001	(0.002)	(0.002)	(0.006)
Weighted average number of common shares outstanding	**220,226**	220,226	220,226	220,226	220,226	220,226	220,226	220,226

* See the "Non-IFRS Financial Performance Measures" in section 9.

8. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

The following table shows certain selected significant financial information from the consolidated balance sheets as at March 31, 2023 and 2022:

(Amounts are in thousands of Canadian dollars)

Information from the Consolidated Balance Sheets	As at March 31, 2023	As at March 31, 2022
Cash and cash equivalents	**3,116**	3,937
Inventories	**9,966**	5,163
Total assets	**26,721**	22,350
Total current liabilities	**13,334**	7,183
Total liabilities	**15,827**	10,516
Equity	**10,894**	11,834

As at March 31, 2023, working capital decreased to $8.4 million from $9.2 million as at March 31, 2022. This decrease is due to an increase in inventory and accounts receivable of $4.8 million and $1.6 million respectively, offset by increases in current liabilities.

Current liabilities increased $6.1 million to $13.3 million as at March 31, 2023. The increase is attributable to increases in accounts payable of $3.1 million, deferred revenues of $1.6 million and derivative financial instruments of $0.2 million as of March 31, 2023. This variation also explains the variation of total liabilities which increased $5.3 million to $15.8 million as at March 31, 2023.

As at March 31, 2023, long-term debt, including the current portion, stood at $3.9 million, versus $3.5 million as at March 31, 2022. In addition, the Corporation was using $1.2 million of an available line of credit of $4.0 million.

Equity decreased $0.9 million to $10.9 million as at March 31, 2023, from $11.8 million as at March 31, 2022. The decrease resulted mainly from the $0.9 million net loss during the fiscal year.

The following table shows selected significant financial information for the fiscal year ended March 31, 2023, compared with the corresponding period of the previous fiscal year:

Information from the Consolidated Statements of Cash Flows	Fiscal year ended March 31	
	2023	2022
Cash flows provided by (used in) operating activities	**255**	(3,323)
Cash flows used in investing activities	**(1,267)**	(1,124)
Cash flows provided by (used in) financing activities	**206**	(744)

8.1 Operating Activities

For the fiscal year ended March 31, 2023, cash flows provided by operating activities totaled $0.3 million compared with cash flows used in operating activities of $3.3 million for the same period in the previous year. The increase in cash provided by operating activities was primarily due to the net decrease in changes in working capital items from a $3.6 million loss as at March 31, 2022, to a $0.8 million loss as at March 31, 2023. The Corporation has made investments during the year in inventory to limit our risk of exposure to geopolitical supply and to ensure enough supply to deliver on certain orders over the first half of 2024. These investments are offset by increases to deferred revenues, deposits on certain orders, as well as increases to accounts payable and accrued liabilities.

8.2 Investing Activities

During the fiscal year ended March 31, 2023, cash flows used in investing activities amounted to $1.3 million compared with $1.1 million in the previous year. The $0.2 million variance consists mainly of an increase in additions to property and equipment, offset by a decrease in additions to intangible assets.

8.3 Financing Activities

During the fiscal year ended March 31, 2023, cash flows provided by financing activities amounted to $0.2 million compared with cash used in financing activities of $0.7 million in the previous year. The variance is due to increased borrowings under the Credit Facility which was offset by decreased proceeds from long-term debt.

9. NON-IFRS FINANCIAL PERFORMANCE MEASURES

The Corporation uses three 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 three non-IFRS performance measures are described as follow:

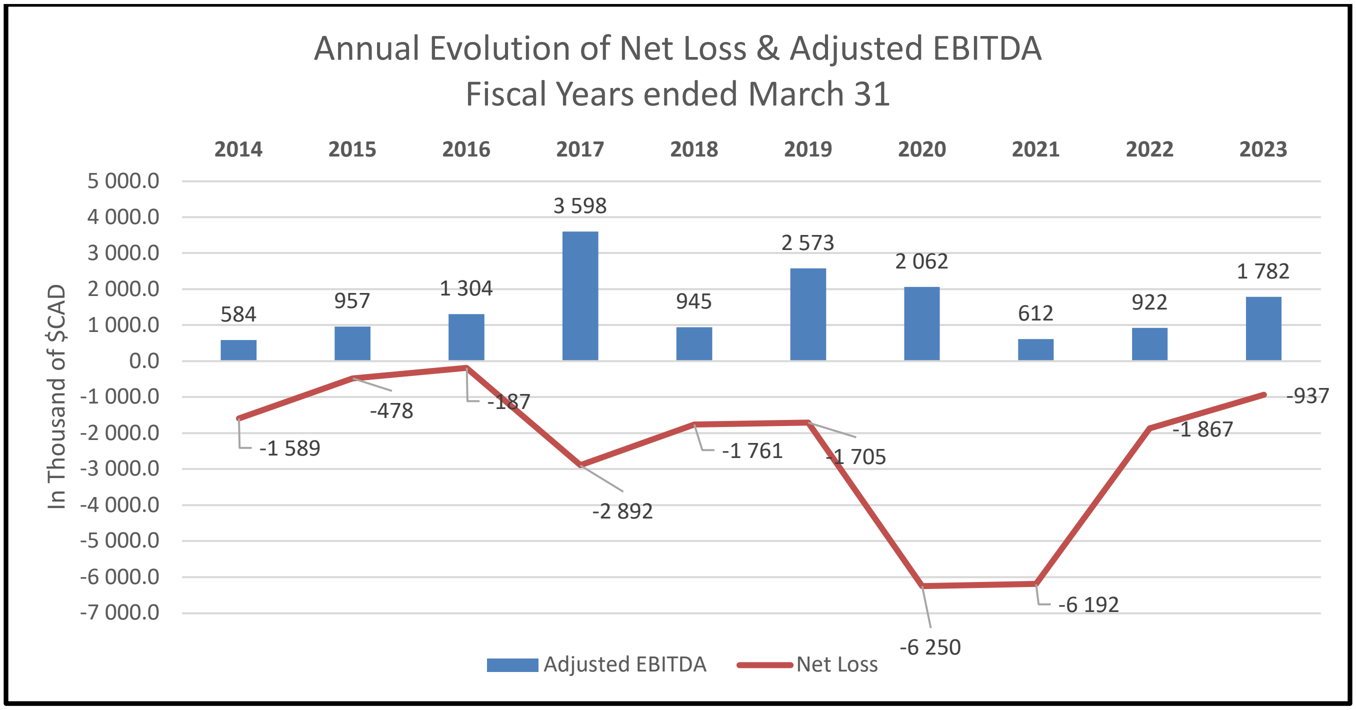
1) EBITDA represents earnings before interest and financing, income taxes and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Corporation's underlying operating performance. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. Adjusted EBITDA provides useful and complementary information, which can be used, in particular, to assess profitability and cash flows from operations. The following table reconciles adjusted EBITDA to profit (loss):

(Amounts are in thousands of Canadian dollars)

	Three-month periods ended March 31		Fiscal year ended March 31	
	2023	**2022**	**2023**	2022
Net (loss) income	**(115)**	238	**(937)**	(1,867)
Amortization of property and equipment	**351**	277	**1,226**	1,124
Amortization of intangible assets	**249**	211	**1,000**	848
Impairment (reversal)	**—**	—	**(223)**	179
Gain on disposal of assets	**—**	—	**(5)**	—
Financial expenses	**103**	99	**504**	396
Income taxes	**—**	—	**19**	—
Share-based payments	**20**	48	**228**	192
Foreign exchange loss (gain)	**40**	99	**(30)**	50
Adjusted EBITDA	**648**	972	**1,782**	922

The following table illustrates the annual evolution of net loss & adjusted EBITDA over the last ten years:

(Amounts are in thousands of Canadian dollars)



2) Gross profit excluding amortization and gross margin excluding amortization are both 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 6.2).

10. FULLY DILUTED SHARE CAPITAL (May 31, 2023)

	Class A common shares
Class A common shares outstanding	220,226,573
Convertible instruments	
Stock-options outstanding	8,127,500
	228,354,073

11. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ("ESG") STRATEGY

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 May 31, 2023, which is available on www.sedar.com.

12. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Significant Judgements and Estimates

The preparation of consolidated financial statements requires the Corporation's management to make judgements, estimates and assumptions that could affect the amounts of assets and liabilities at the balance sheet date and the amounts of revenues and expenses.

Judgements

In connection with the application of the Corporation's accounting policies, management made the following judgement which had a material impact on the carrying amount of assets and liabilities reported in the consolidated financial statements.

Leases

The Corporation is involved in the rental of motion systems as a lessor. The Corporation has determined, based on its assessment of the terms and conditions of agreements, such as lease term and minimum lease payments, that it may or may not retain substantially all the risks and rewards of ownership of the systems for its lease contracts. Accordingly, the Corporation has accounted for these agreements as operating or finance leases, as deemed appropriate.

Intangible assets

Development costs related to D-BOX motion technology are capitalized in accordance with the accounting policy described in note 2.12 of the consolidated financial statements. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and forecasted revenues.

Estimates

The underlying estimates and assumptions are based on past experience and other factors deemed reasonable in view of the circumstances. Accordingly, they provide a basis for judgements made in determining the carrying amounts of assets and liabilities.

The final amounts appearing in the Corporation's future consolidated financial statements may differ from the amounts currently estimated. These estimates and assumptions are reviewed on an ongoing basis. The main estimates used concern the impairment of non-financial assets as well as the provision for expected credit losses.

Impairment of non-financial assets

Impairment of non-financial assets exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation.

Provision for expected credit losses of trade accounts receivables

The Corporation uses a provision matrix to calculate expected credit losses ("ECLs") for trade accounts receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating, and coverage by credit insurance). The provision matrix is initially based on the Corporation's historical observed default rates. The Corporation will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Corporation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Corporation's trade accounts receivables is disclosed in note 3 of the consolidated financial statements.

13. FINANCIAL INSTRUMENTS

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk due to fluctuations in interest rates on cash and cash equivalents that earn interest at market rates and its variable interest rate on the current portion of long-term debt. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk. On an annual basis, a 1% change in interest rates would have had a $10 thousand impact on net loss and comprehensive loss for the year ended March 31, 2023 (impact of $22 thousand for the year ended March 31, 2022).

The Corporation manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations.

Credit Risk

The Corporation is exposed to credit losses arising from payment defaults by third parties. The Corporation evaluates the creditworthiness of its clients to limit the amount of credit extended, where appropriate, and establishes an allowance for expected credit losses sufficient to cover probable and reasonably estimated losses. Furthermore, the Corporation generally insures its accounts receivable balances with Export Development Canada. As of March 31, 2023, three clients accounted for 35% of total trade accounts receivable and 42% of trade accounts receivable were 77% insured (as at March 31, 2022, five clients accounted for 40% of total trade accounts receivable and 50% of trade accounts receivable were 91% insured). Historically, the Corporation has never written off a significant amount of trade accounts receivable. Outstanding trade accounts receivable over 90 days past due stood at 17% as at March 31, 2023 (18% in 2022). The Corporation allowance for expected credit losses amounted to $196 thousand as at March 31, 2023 ($166 thousand as at March 31, 2022). Accounts receivable included investment tax credits, commodity taxes and government assistance receivables, which are receivable from the government and not exposed to significant credit risk. Cash and cash equivalents are mainly held with a limited number of Canadian chartered banks.

As at March 31, 2023, cash equivalents consist of liquid investments, bearing interest at 0.75%, with no fixed maturity.

Foreign Exchange Risk

The Corporation is exposed to foreign exchange risk due to cash and cash equivalents, trade accounts receivable, deposits, and accounts payable denominated in U.S. dollars. As at March 31, 2023, financial assets, consisting primarily of cash, trade accounts receivable and deposits denominated in U.S. dollars, totaled US$1.8 million, US$3.2 million and US$3 thousand respectively (US$2.6 million, US$3.0 million and US$1.3 million, respectively, as at March 31, 2022), and financial liabilities denominated in U.S. dollars totaled US$2.6 million (US$1.0 million as at March 31, 2022). As at March 31, 2023, a 10% increase or decrease in the exchange rate between the U.S. dollar and the Canadian dollar would have had a $0.3 million impact on net loss and comprehensive loss ($0.7 million as at March 31, 2022).

Moreover, the Corporation uses derivative financial instruments to mitigate foreign exchange risk. The Corporation elected not to apply hedge accounting. However, the Corporation considers that those derivative instruments partially hedge the foreign exchange risk related to those transactions. As at March 31, 2023, the Corporation held foreign exchange contracts with a nominal value ranging from US$6.4 million to US$8.1 million (from US$5.9 million to US$9.4 million as at March 31, 2022), allowing it to sell U.S. currency at a Canadian dollar exchange rate ranging from 1.2700 to 1.3700 (1.2000 to 1.2800 as at March 31, 2022) maturing from April 2023 to March 2024 (April 2022 to February 2023 in 2022).

Liquidity Risk

Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations as they become due. The Corporation manages its liquidity to allow for the settlement of liabilities when they become due by continuously monitoring actual and expected cash flows. In past years, the Corporation financed its liquidity needs primarily by issuing debt and equity securities. The Corporation believes that it has sufficient liquidity to meet its working capital obligations and carry on its business for the next twelve months. As the Corporation is currently incurring operating losses, additional capital may be required to continue developing and marketing its technology.

As of March 31, 2023, the Corporation's financial liabilities which had contractual maturities of under one year consisted of its credit facility, accounts payable and accrued liabilities, derivative financial instruments, current portion of lease liabilities and current portion of long-term debt amounting to $10.5 million ($6.0 million as of March 31, 2022). Non-current contractual liabilities included lease liabilities amounting to $0.2 million ($0.5 million as of March 31, 2022) and long-term debt amounting to $2.3 million ($2.9 million as of March 31, 2022).

Fair value

The fair value of cash and cash equivalents, accounts receivable, credit facility, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

The fair value of long-term debt bearing interest at a variable rate approximates its carrying value because the terms and conditions are comparable to current market terms and conditions.

The fair value of long-term debt bearing interest at a fixed rate is determined using the net present value of principal contractual payment discounted using a rate of 10% and represents an amount of approximately $1.5 million.

14. RISK AND UNCERTAINTIES

We operate in an industry which presents many risks and uncertainties. These risks and uncertainties are described in the Annual Information Form (AIF) dated May 31, 2023, which is available on www.sedar.com.

15. CONTINGENCY

In the normal course of business, the Corporation is party to lawsuits and other claim proceedings. It is management's opinion that any resulting settlement would not have a material impact on the Corporation's financial position or operating results.

16. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 Respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the Corporation has filed certifications signed by the President and Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures, and the design and effectiveness of internal control over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures and concluded, based on their evaluation, that such disclosure controls and procedures were effective as of March 31, 2023.

Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Corporation's internal control over financial reporting and concluded, based on their evaluation, that such controls were effective as of March 31, 2023.

Finally, there has been no change in the Corporation's internal control during the financial year beginning April 1, 2022 and ended March 31, 2023 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

17. OUTLOOK

According to a 2022 report by Research and Markets[1], the global haptics market is expected to reach US$28.1 billion by 2026. That represents a compound annual growth rate of 12.7%.

Although uncertainty remains around geopolitical, economic and supply chain risks, and although historically the Corporation's revenues have been cyclical, the Corporation expects its growth to carry into fiscal 2024. While D-BOX expects to build upon its leadership position in the theatrical market and established presence in simulation and training, the Corporation is also poised for growth in the sim racing and video gaming markets.

Theatrical and Themed Entertainment

The size and growth potential for the commercial entertainment market, including the theatrical and themed entertainment sub-markets, are large and are expected to expand as consumers continue to return to entertainment venues. Consumers are eager to get entertained with an enhanced and immersive experience as validated by the strong box office receipts from North American theatrical exhibitors which grew 41% YoY.

With the success of The Super Mario Bros. Movie subsequent to year end, and upcoming blockbuster releases such as Fast X, Spider-Man: Across the Spider-verse, Transformers: Rise of the Beasts, and Indiana Jones and the Dial of Destiny, the outlook for the theatrical market is promising for fiscal 2024. For the themed entertainment market, a recent market study from Polaris Market Research[2] forecasts that global location-based entertainment market to grow 34% CAGR to reach US$21.4 billion by 2028.

D-BOX is renowned for the premium haptic theatrical experience that they offer moviegoers around the world. The Corporation is focused on strengthening its leadership position in this market and expanding its theatrical footprint by more than 20% to 1,000 screens within the next two to three years.

Simulation and Training

The Simulation and Training market is estimated to grow 10% per annum to US$20 billion by 2027[3]. The business fundamentals for simulators remain strong driven by safety and prevention measures, increased skills and productivity, lower environmental footprint, and cost savings compared to training on planes and helicopters, heavy equipment trucks, and automobiles.

Sim Racing

Over the last few years, sim racing has transitioned from a niche game to a legitimate esport. Rising adoption of virtual training solutions for racing drivers to improve their driving skills is expected to be a key driver in the demand for racing simulators. With its haptic systems that are capable of reproducing textures, velocity, engine vibrations and dynamic vehicle motion, D-BOX has drawn the attention of several leading racing simulation partners who have chosen to integrate the D-BOX haptic systems into their simulators.

Following the launch of the first F1 Arcade location in London, U.K. last year, Kindred Concepts expects to open a second location in Birmingham, U.K. later this year, a location in Boston, Massachusetts, U.S.A. next year, and has plans for as many as 30 officially sanctioned F1 Arcade sim racing centres over the next four to five years. We expect these locations to be similar in size to the London location, which features 60 D-BOX-equipped racing simulators.

Also in sim racing, the multipurpose haptic platform developed in collaboration with RSEAT is now available for purchase; the Mercedes-Benz and Mercedes-AMG multipurpose motion platform is expected to be available for purchase in the coming weeks; and the Trak Racer chassis to be equipped with five of D-BOX's new G5 actuators is expected to launch later this year. Each of these collaborations represent new revenue streams for D-BOX in fiscal 2024.

Video gaming

With approximately three billion gamers around the world[4], video gaming 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 hardware, of which the market is estimated to grow at over 20% CAGR to about $45 billion by 2024 according to Jon Peddie Research[5]. Gamers have long adopted basic haptics technology, with rumbles on video game controllers. Haptic cues make video gaming more immersive and realistic than ever before and can provide significant gameplay advantages through enhanced control and precision, opening a plethora of opportunities for D-BOX.

D-BOX's motion code is currently implemented in more than 100 curated PC games from major studio partners such as Ubisoft, Microsoft and more. While the list of D-BOX hand-coded games is expected to grow, for games that are not hand-coded, D-BOX's Adaptive Gaming mode provides haptic feedback based on users' inputs on their controllers, mouse or keyboard, vastly expanding the appeal of Motion 1 and D-BOX motion platforms to gamers.

18. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

This MD&A was prepared as at May 31, 2023. Additional information can be found on the SEDAR website at 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.