Management's Discussion and Analysis

D-BOX Technologies Inc.
Third Quarter Ended December 31, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS
D-BOX Technologies Inc.
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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 third quarter and the nine-month period ended December 31, 2020, 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 December 31, 2020 and March 31, 2020.

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, 2020 and accompanying notes and the unaudited interim condensed consolidated financial statements of the third quarter and the nine-month period ended December 31, 2020. Unless otherwise indicated, the terms "Corporation" and "DBOX" refer to D-BOX Technologies Inc.

The unaudited interim condensed consolidated financial statements for the quarter and the nine-month period ended December 31, 2020, and this MD&A have been reviewed by the Audit Committee, and approved by the Board of Directors of the Corporation on February 11, 2021. 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: future funding requirements; indebtedness; public health and COVID-19 pandemic; political, social and economic conditions; strategic alliances; access to content; performance of content; distribution network; exchange rate between the Canadian dollar and the U.S. dollar; manufacturing costs; competition; concentration of clients; credit risk; dependence on suppliers; warranty, recalls and lawsuits; intellectual property; security and management of information; reputational risk through social media, as well as the 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, 2020, 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 this MD&A 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. COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus was reported, later to be renamed COVID-19. On March 11, 2020, the World Health Organization made the assessment that COVID-19 can be characterized as a pandemic. In the following weeks, local and national governments imposed strict measures and restrictions in an attempt to slow the transmission of the virus, including travel restrictions, self-isolation measures, mandatory closures of nonessential services and businesses, and physical distancing practices.

During the nine-month period, while restrictions were applied at different degrees depending on the countries, most commercial entertainment venues operated at limited capacity and, in the case of the theatrical market, a significant number of blockbuster movies have been postponed to a later date, which adversely affected D-BOX's activities, revenues and operating results.

There continues to be uncertainty regarding the duration and magnitude of the COVID-19 pandemic and the possibility of a recurrence. We are continuing to monitor the impact of COVID-19 on our business, financial condition and operations. Refer to the section of the Annual Information Form entitled "Risk Factors" for a discussion about the risks associated with the COVID-19 pandemic.

4. FINANCIAL AND BUSINESS HIGHLIGHTS

4.1 COVID-19 Financial and Operational Impacts

During the third quarter ended December 31, 2020, certain entertainment venues remained closed and those which reopened have been constrained with social distancing rules, local government business restrictions and, in the case of the theatrical market, a significant number of blockbuster movies have been postponed to a later date, affecting the demand for our products, activities, revenues, gross profit and operating results. The impacts are expected to continue in the next fiscal year ending March 31, 2022 and the magnitude and duration of the full recovery remain uncertain.

4.2 Financial Highlights

Highlights for the third quarter Ended December 31, 2020

- Cash and cash equivalents was $4.8 million as at December 31, 2020 compared to $4.1 million as at March 31, 2020.
- Total revenues decreased to $3.0 million from $5.5 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss was $2.2 million compared to a net loss of $1.6 million during the same period last year.
- Adjusted EBITDA* decreased to ($1.3) million from $0.3 million for the same period last year.

Highlights for the nine-month period ended December 31, 2020

- Total revenues decreased to $8.1 million from $19.3 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss increased to $3.7 million from $3.2 million for the same period last year.
- Adjusted EBITDA* decreased to ($2.0) million from $0.6 million for the same period last year.

Third Quarter and Nine-month period ended December 31 (in thousands of dollars, except per share amounts)				
	Third Quarter		**Nine-month Period**	
	2020	2019	**2020**	2019
Revenues	**2,997**	5,473	**8,144**	19,335
Net loss	**(2,194)**	(1,615)	**(3,701)**	(3,154)
Adjusted EBITDA*	**(1,288)**	279	**(1,957)**	608
Basic and diluted net loss per share	**(0.012)**	(0.008)	**(0.021)**	(0.017)
Information from the consolidated balance sheet				
	As at December 31, 2020		**As at March 31, 2020**	
Cash and cash equivalents	**4,811**		4,116	

* See the "Non IFRS Performance Measures" section on page 7 and the table reconciling adjusted EBITDA* to net loss on page 12

- On January 25, 2021, D-BOX entered into an amendment agreement with National Bank of Canada. In light of the COVID-19 pandemic and its effects on D-BOX's businesses, the Company did not meet certain financial covenant ratios as at December 31, 2020. The amendment provides D-BOX with the immediate suspension of certain financial covenants, and upon certain conditions will be extended to the fourth quarter of 2021 ended March 31, 2021. As at February 11, 2021, an aggregate of $3.3M million was outstanding under the Credit Facilities.

4.3 Operational Highlights

- D-BOX and Cooler Master, a leading manufacturer of computer and gaming peripherals, joined force on the design and commercialization of an innovative video gaming chair, integrating D-BOX whole-body haptic feedback technology. Aimed at gamers of all genres and skill levels, this immersive chair, the first of its kind in the world, will revolutionize the gaming experience and will be available in the summer 2021 via Cooler Master's global retail network.
- D-BOX and Jaymar, one of North America's leading furniture manufacturers, launched a recliner which integrates D-BOX haptic technology, providing fans of TV series, movies and video games with immersive and haptic experiences.
- D-BOX, True Course Simulations and Morane Technologies combined their expertise for the delivery of 30 flight simulation Immersive Training Devices (ITD) installed in the U.S. Air Force Academy (USAFA).
- The Fédération Internationale de l'Automobile (FIA), the governing body of motor sport & mobility, announced the exclusive endorsement and recommendation of D-BOX products to its members.

5. OUTLOOK

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

U.S. consumer spending in the home entertainment segment, which grew 8.4% to $25.2 billion[1] in 2019 and 25.7%[2] for the first half of 2020, is led by streaming services and video-on-demand. D-BOX launched through a commercial partnership, an affordable immersive and haptic home entertainment seat to reach a broader consumer base earlier in November. It is an important milestone for D-BOX as it is a foray into a commercial-off-the-shelf model in the home entertainment segment. D-BOX plans to enroll other partners in 2021.

Additionally, the video game market is expected to become an important revenue contributor for D-BOX as its haptic products are introduced into an overall gaming and streaming gear market estimated at about $40 billion in 2020 by Jon Peddie Research[3]. Gamers have long adopted basic haptics technology, with rumbles on video game controllers. D-BOX's vision is that the haptic cues enhance the emotional gaming experience and immersivity, as well as improve the performance of gamers. D-BOX has signed with a video game peripheral manufacturer to commercialize, in 2021, a gaming chair that integrates D-BOX's haptic technology. D-BOX is in active discussions to enroll additional gaming peripherals vendors and video gaming studios throughout 2021.

The size and growth potential for the professional simulation and commercial entertainment markets, including the theatrical and themed entertainment markets, are large and will continue to grow, even if there is a temporary setback in some markets due to the COVID-19 pandemic. With vaccination campaigns underway and a movie slate filled of blockbuster releases, such as "James Bond: No Time to Die", "Top Gun: Maverick", "Mission Impossible 7" and the next sequel of "Spider-Man Far From Home", the industry is set for a robust recovery in the second half of 2021. The simulation and training segment has been resilient as a result of the home racing simulation success in the past year.

[1] "DEG Year-End 2019 Digital Media Entertainment Report", Digital Entertainment Group, January 13, 2020
[2] "DEG Mid-End 2020 Digital Media Entertainment Report", Digital Entertainment Group, August 20, 2020
[3] "Global PC Gaming Hardware Market Forecast", Jon Peddie Research, July 6, 2020

Moreover, the ultra-high precision of the software has allowed D-BOX to gain traction into other professional simulation submarket segments such as heavy equipment, defense, aerospace, agriculture and commercial racing simulation. The trend for local training facilities and more affordable simulators will benefit D-BOX's goal to continue to increase its global market penetration.

While there is encouraging news about potential treatments, the uncertainty related to the magnitude and duration of COVID-19 pandemic could impact the financial performance of the Corporation in future reporting periods.

6. CORPORATE PROFILE

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

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

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

1. D-BOX Haptic tracks, which programs motion effects for movies, TV series, or games to provide immersive and realistic experiences;
2. A motion controller that synchronizes the visual content (films, video games, simulation and training, virtual reality experiences), D-BOX Haptic tracks and the D-BOX motion system.
3. The D-BOX motion system, consisting of proprietary electromechanical actuators and mechanical system built into a platform, seat, or other type of equipment.

As of December 31, 2020, after rightsizing the workforce, D-BOX had 84 employees compared with 131 employees at December 31, 2019.

7. CORPORATE STRATEGY

The Corporation is a leader in the design of haptic and immersive experiences. It is also uniquely positioned to serve as a true differentiator for upcoming home entertainment companies, virtual reality (VR) technologies, video game industry and content distributors. D-BOX continues to develop brand awareness, in addition to offering differentiated asset generating revenues in various business sectors.

7.1 Revenue Models

The Corporation's revenue streams consist primarily of:

1. Recurring revenues are generated by the licensing of the D-BOX Motion Code in theatrical and commercial entertainment centres equipped with the D-BOX motion systems to view visual content encoded by D-BOX and by a subscription fee to access D-BOX's Motion Code. The Corporation also receives maintenance revenues relating to the use of the motion systems.

2. Sales of actuators to resellers, integrators, and equipment or seating manufacturers that incorporate and

market the D-BOX technology under their own brands (known as original equipment manufacturers or OEMs).

3. Sales or leasing of D-BOX motion systems including motion for seats, motion controllers and electronic interfaces or servers.

7.2 Markets

7.2.1. Home Entertainment Market

The home entertainment market is a market made up of a plethora of sub-markets:

- video game peripherals such as:
  - Video gaming chairs;
  - Various video game peripheric and controllers; and
  - Video racing rigs
- virtual reality system
- manufacturers of furniture

The haptic experience at home is growing rapidly and major technology companies are starting to look at this market to differentiate their own product offering. D-BOX, with more than 20 years of experience is well established to support new players. 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.

7.2.2. Commercial Market

The commercial market includes the commercial entertainment segment which are projects related to location-based entertainment, theme parks, arcades, museums, planetariums and movie theatres, as well as the simulation and training segment. In recent years, the growth of family entertainment centres, a sub-segment of the amusement park market, has helped fuel the growth of the commercial entertainment market. D-BOX offers its products and services to the commercial market through channel partners including OEMs, integrators and value-added resellers.

<table>
<tr><th>Entertainment</th><th>Simulation And Training</th></tr>
<tr><td>Sub-markets:
▪ Theme Parks
▪ Arcades, Location-based entertainment
▪ Museums and planetariums
▪ Theatrical</td><td>Sub-markets:
▪ Automobile & Racing
▪ Defense
▪ Flight
▪ Heavy Equipment
▪ Wellness</td></tr>
<tr><th colspan="2">Virtual Reality for both the Entertainment and the Simulation and Training Markets</th></tr>
</table>

The Corporation's business strategy to increase sales in the commercial entertainment and simulation and training markets are as follows:

1. Increase the number of partnerships, including OEMs, integrators and value-added resellers;
2. Increase the revenue per partner;

3. Find new sectors for our technology; and
4. Develop new products.

Theatrical Entertainment

D-BOX offers its products and services to the theatrical market directly and through partners. There were 195,282 cinema screens[4] globally in 2019.

The Corporation's business strategies to increase sales in the theatrical market are as follows:

1. Add new theatrical exhibitors seeking to enhance their offerings with a distinctive draw and generate a new source of revenue.

2. Equip D-BOX motion systems in more complexes or more screens within the same complex or more rows at existing screens.

As of December 31, 2020, the number of total screens installed or in backlog was 764 compared with 773 a year earlier. Fifty exhibitors had more than one location that integrated the D-BOX motion system and 223 locations had more than one screen incorporating our technology within the same complex. The Corporation defines system backlog as follows: a D-BOX motion system commitment or order received as part of a contractual agreement with an installation scheduled within a 24-month period.

8. NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

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

- Gross profit excluding amortization is used to evaluate the Corporation's capacity to generate funds through product sales by considering the cost of these products while excluding the main non-cash item, namely amortization (see the table reconciling gross profit to gross profit excluding amortization on page 10).

[4] Source: 2019 THEME Report as of March 2020

9. MAIN FINANCIAL DATA

The following tables show selected significant financial information for the third quarter and nine-month period ended December 31, 2020 compared with the corresponding period of the previous fiscal year:

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

Information from the Consolidated Statements of Net Loss and Comprehensive Loss	Third Quarter ended December 31		Nine-month Period ended December 31	
	2020	2019	2020	2019
Revenue	**2,997**	5,473	**8,144**	19,335
Gross profit excluding amortization*	**1,405**	3,564	**4,061**	12,128
Net loss	**(2,194)**	(1,615)	**(3,701)**	(3,154)
Adjusted EBITDA*	**(1,288)**	279	**(1,957)**	608
Basic and diluted net loss per share	**(0.012)**	(0.008)	**(0.021)**	(0.017)

* See the "Non-IFRS Performance Measures" section on page 7 and the table reconciling adjusted EBITDA to net loss on page 12.

Information from the Consolidated Statements of Cash Flows	Nine-month Period ended December 31	
	2020	2019
Cash flows provided by (used in) operating activities	**57**	(2,018)
Additions to intangible assets	**(559)**	(735)
Additions to property and equipment	**(3)**	(266)
Cash flows provided by (used in) financing activities	**1,096**	(1,189)

The following table shows certain selected significant financial information from the consolidated balance sheets as at December 31, 2020 and March 31, 2020:

(Amounts are in thousands of Canadian dollars)

Information from the Consolidated Balance Sheets	As at December 31, 2020	As at March 30, 2020
Cash and cash equivalents	**4,811**	4,116
Inventories	**5,216**	6,531
Total assets	**21,678**	26,871
Total current liabilities	**8,071**	10,916
Total liabilities	**10,581**	12,521
Equity	**11,097**	14,350

10. OPERATING RESULTS

10.1 Revenues

Revenues for the third quarter ended December 31, 2020, decreased 45% to $3.0 million compared with $5.5 million for the third quarter ended December 31, 2019. For the nine-month period ended December 31, 2020, total revenues were $8.1 million, down 58% from $19.3 million for the same period last year.

During the third quarter of fiscal 2021 and the nine-month period ended December 31 2020, the COVID-19 pandemic led to a mandatory temporary shutdown of entertainment venues around the globe affecting adversely revenues from the theatrical entertainment and commercial entertainment markets. Consequently, the demand for our products, activities, revenues and gross profit have been adversely impacted by the pandemic.

Home Entertainment Market
Home entertainment revenues increased 94% from $264 thousand for the third quarter ended December 31, 2019 compared to $513 thousand this year. For the nine-month period ended December 31, 2020, home entertainment revenue increased 44% to $0.8 million from $0.6 million for the same period last year.

Commercial - Entertainment Market
The commercial entertainment market is comprised of the theatrical and themed entertainment markets. During the third quarter ended December 31, 2020, the commercial entertainment market revenue fell 83% to $0.5 million compared with $3.1 million for the third quarter last year. For the nine-month period, the entertainment market revenues fell 86% to $1.7 million compared with $12.6 million for the nine-month period last year.

Revenues from the theatrical market consist of D-BOX haptic system sales, revenue from rights for use, rental and maintenance with respect to admission tickets system. During the third quarter, revenues from theatrical entertainment fell 88% to $0.3 million from $2.4 million for the same period last year. These revenues consisted of: (i) DBOX haptic systems sales, down 90% to $0.1 million ($0.6 million in 2019) and (ii) recurring revenue from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 87% to $0.2 million ($1.8 million in 2019). For the nine-month period, revenues from theatrical entertainment fell 89% to $1.1 million from $10.2 million for the same period last year. These revenues consisted of: (i) DBOX haptic systems sales, down 88% to $0.5 million ($4.1 million in 2019) and (ii) recurring revenues from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 90% to $0.6 million ($6.1 million in 2019).

Recurring revenues from rights for use, rental and maintenance can fluctuate from period to period based on the following factors:

- Box office performance varies significantly from movie to movie.
- Revenue sharing with exhibitors and studios.
- Movie studios are not releasing movies.
- Individual performance of exhibitors.
- The average number of D-BOX haptic systems deployed.
- The number of weekly screenings of a D-BOX movie, which can vary by country and exhibitor.
- The number of weeks a movie screens, which vary by country due to different launch dates or exhibitor decisions to extend or shorten the exhibition window.
- The number of seats available due to social distancing policies.

Revenues from the themed entertainment market consist of D-BOX haptic system sales related to location-based entertainment, theme parks, arcades and museums. During the third quarter ended December 31, 2020, themed entertainment revenues amounted to $257 thousand, down 66% from $746 thousand for the same period last year. For the nine-month period ended December 31, 2020, themed entertainment systems sales decreased 75% to $622 thousand compared with $2.5 million for the same period last year.

Commercial - Simulation and Training Market

Revenues in the simulation and training market represent D-BOX haptic system sales to resellers or system integrators. Haptic system sales in the simulation and training market were down 6% to $1.9 million for the third quarter ended December 31, 2020 from $2.1 million for the same period last year. For the nine-month period ended December 31, 2020, sales fell 9% to $5.6 million from $6.1 million for the same period last year.

10.2 Gross Profit

The following table reconciles gross profit to gross profit excluding amortization

(Amounts are in thousands of Canadian dollars)

	Third Quarter ended December 31			Nine-month Period ended December 31		
	2020	2019	Variation (%)	2020	2019	Variation (%)
Revenues	2,997	5,473	-45%	8,144	19,335	-58%
Gross profit	1,259	3,046	-59%	3,037	10,767	-72%
Amortization related to cost of goods sold	146	518	-72%	1,024	1,361	-25%
Gross profit excluding amortization*	1,405	3,564	-61%	4,061	12,128	-67%
Gross margin excluding amortization	47%	65%		50%	63%	

* See the "Non-IFRS Performance Measures" section on page 7.

The Gross margin excluding amortization decreased in the current quarter and on an annual basis due to the revenue mix. Right for use, rental and maintenance revenues represent 8% of total revenues during the quarter compared to 33% in the previous year.

10.3 Operating Expenses

The following table summarizes the evolution of expenses during the current quarter and year to date. As a result of the COVID-19 pandemic that affected the Company's revenues, our expenses are significantly lower than last year. Nonetheless, efforts and expenses have been reallocated to strategic areas of the organization such as research and development and the transformation towards the Home Entertainment market. With revenues being significantly lower than last year, the percentage of expenses over revenues is higher than last year in each of the expense categories. Details of the nature of expenses are provided following the table for more details.

(Amounts are in thousands of Canadian dollars)

	Third Quarter ended December 31			Nine-month Period ended December 31		
	2020	2019	Variation (%)	2020	2019	Variation (%)
Selling and marketing	**1,540**	2,344	-34%	**2,616**	6,929	-62%
% of Revenues	51%	43%		32%	36%	
Administration	**1,106**	1,529	-28%	**2,719**	4,341	-37%
% of Revenues	37%	28%		33%	23%	
Research and development	**535**	690	-23%	**1,212**	2,068	-41%
% of Revenues	18%	13%		15%	11%	
Foreign exchange loss (gain)	**125**	4	2922%	**(145)**	117	-224%
% of Revenues	0%	0%		-2%	1%	

Government assistance: For the quarter and nine-month period ended December 31, 2020, the Corporation recognized government assistance related to the Canada Emergency Wage Subsidy of $335 thousand and $1,921 thousand. Amounts of $330 thousand and $1,808 thousand were recorded as a reduction of operating expenses and an amount of $113 thousand was recognized as a reduction of intangible assets. The Corporation also recognized government assistance related to the Canada Emergency Rent Subsidy of $28 thousand and $28 thousand for the quarter and nine-month period ended December 31, 2020, and these amounts were recorded as a reduction of operating expenses.

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

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

Research and Development: Research and development expenses consist primarily of costs related to employees, 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.

Foreign Exchange Gain or Loss: Foreign exchange gain 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.

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

10.4 Financial Expenses

For the third quarter ended December 31, 2020, financial expenses net of interest income amounted to $150 thousand compared with $94 thousand for the same period of the previous year.

For the nine-month period ended December 31, 2020, financial expenses net of interest income reached $338 thousand compared with $467 thousand for the corresponding period last year.

10.5 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.

10.6 Net Loss

Net loss for the third quarter ended December 31, 2020, amounted to $2.2 million (basic and diluted net loss of $0.012 per share) compared with a net loss of 1.6 million (basic and diluted net loss of $0.008 per share) for the same period last year.

For the nine-month period ended December 31, 2020, net loss amounted $3.7 million (basic and diluted net loss of $0.021 per share) compared with a net loss of $3.2 million (basic and diluted net loss of $0.017 per share) for the same period last year.

11. ADJUSTED EBITDA*

Adjusted EBITDA provides useful and complementary information that can be used, in particular, to assess profitability and cash flows provided by operations. It consists of net income (loss) excluding amortization, financial expenses net of income, income taxes, impairment charges, share-based payments, foreign exchange loss (gain) and non-recurring expenses related to restructuring costs.

For the third quarter ended December 31, 2020, adjusted EBITDA amounted to a loss of $1.3 million compared with an income of $279 thousand for the same period last year. For the nine-month period ended December 31, 2020, adjusted EBITDA amounted to a loss of $2.0 million compared with an income of $608 thousand for the same period last year.

The following table reconciles adjusted EBITDA to net loss:

(Amounts are in thousands of Canadian dollars)

	Third Quarter ended December 31		Nine-month Period ended December 31	
	2020	2019	2020	2019
Net loss	**(2,194)**	(1,615)	**(3,701)**	(3,154)
Amortization of property and equipment	**387**	535	**1,263**	1,391
Amortization of intangible assets	**228**	202	**608**	664
Amortization of other assets	**—**	1	**—**	3
Loss on disposal of property and equipment	**—**	—	**—**	2
Financial expenses (income)	**150**	94	**338**	467
Income taxes (recovery)	**(3)**	—	**(2)**	(1)
Share-based payments	**19**	55	**96**	116
Foreign exchange loss (gain)	**125**	4	**(145)**	117
Restructuring costs	**—**	1,003	**(414)**	1,003
Adjusted EBITDA	**(1,288)**	279	**(1,957)**	608

* See the "Non-IFRS Performance measure" section on page 7.

12. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

12.1 Operating Activities

For the nine-month period ended December 31, 2020, cash flows provided by operating activities totalled $57 thousands compared with cash flows used in operating activities of $2.0 million for the same period last year. This $2.1 million favorable variances in cash flows related to operating activities was mainly the result of the net favorable cash flows variance from the working capital.

12.2 Investing Activities

For the nine-month period ended December 31, 2020, cash flows used in investing activities amounted to $0.5 million compared with $1.0 million last year. The $0.5 million variance consists mainly of a reduction in additions to property and equipment ($0.3 million) and intangible assets ($0.2 million).

12.3 Financing Activities

For the nine-month period ended December 31, 2020, cash flows provided by financing activities amounted to $1.1 million compared with cash used of $1.2 million last year. The $2.3 million favourable variance comes from additional net financing during the period.

For the nine-month period ended December 31, 2020, the interest expense on long-term debt charged to loss amounted to $33 thousand compared with $364 thousand in 2019.

12.4 Equity

Equity decreased $3.3 million to $11.1million as at December 31, 2020, from $14.4 million as at March 31, 2020. The decrease resulted mainly from the $3.7 million net loss for the nine-month period ended December 31, 2020.

12.5 Working capital

As at December 31, 2020, working capital decreased to $5.8 million, compared with $6.7 million as at March 31, 2020. Current assets decreased by $3.7 million to $13.9 million which was mainly due to the reduction of $3.7 million in accounts receivable, a reduction of $1.3 million in inventories and partially offset by the increase of $0.7 million from $4.1 million to $4.8 million in cash and cash equivalents. Current liabilities decreased by $2.8 million to $8.1 million as at December 31, 2020 and was mainly due to the reduction of $3.7 million in the current portion of long-term debt, a reduction of $1.5 million in accounts payable and accrued liabilities and partially offset by the increase of $3.3 million in credit facility.

13. 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)

	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues from Home Entertainment								
System sales	**513**	**148**	190	159	264	174	147	152
Revenues from the Commercial markets								
System Sales:								
Simulation and training	**1,939**	**2,150**	1,494	2,163	2,060	1,838	2,216	2,569
Themed entertainment	**257**	**183**	182	1,300	746	724	995	2,758
Theatrical entertainment	**58**	**187**	266	1,669	582	1,782	1,741	999
Rights for use, rental and maintenance	**230**	**249**	98	1,269	1,821	1,811	2,434	1,831
TOTAL REVENUES	**2,997**	**2,917**	2,230	6,560	5,473	6,329	7,533	8,309
Total system sales	**2,767**	**2,668**	2,132	5,291	3,652	4,518	5,099	6,478
Adjusted EBITDA*	**(1,288)**	**(571)**	(95)	7	279	114	215	267
Net loss	**(2,194)**	**(540)**	(967)	(3,096)	(1,615)	(933)	(606)	(551)
Basic and diluted net loss per share	**(0,012)**	**(0.003)**	(0.005)	(0.019)	(0.008)	(0.005)	(0.003)	(0.003)
Weighted average number of common shares outstanding (in thousands)	**175,951**	**175,951**	175,951	175,951	175,951	175,951	175,951	175,951

*See the "Non-IFRS Financial Measures" section on page 7 and the table reconciling adjusted EBITDA to net loss on page 12.

14. FULLY DILUTED SHARE CAPITAL (FEBRUARY 11, 2021)

	Class A common shares
Class A common shares outstanding	175,950,573
Convertible instruments	
Stock-options outstanding	12,581,622
Warrants	2,000,000
	190,532,195

15. 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 July 3, 2020, which is available on www.sedar.com.

16. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As of March 31, 2020, management has identified a material weakness with respect to the design and maintenance of effective controls over the accounting of non-routine complex transactions related to lease agreements. Such weakness pertained to the interpretation of IFRS 16. During the first quarter of fiscal year 2021, management implemented an additional control over the accounting of non-routine complex transactions related to lease agreements, which are highly exceptional in relation to the general activities and affairs of the Corporation.

During the quarter ended December 31, 2020, to the exception of the above additional measure of analysis of effective controls, there were no changes in the Corporation's internal control over financial reporting that materially affected, or are likely to materially affect, the Corporation's internal control over financial reporting.

17. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

This MD&A was prepared as at February 11, 2021. Additional information can be found on the SEDAR website at www.sedar.com.

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