



# **Management's Discussion and Analysis**

**D-BOX Technologies Inc.  
First Quarter Ended June 30, 2020**

# Table of Contents

<b>Table of Contents</b> .....	<b>i</b>
<b>1. SCOPE OF THE MD&amp;A</b> .....	<b>1</b>
<b>2. FORWARD-LOOKING STATEMENTS</b> .....	<b>1</b>
<b>3. COVID-19 PANDEMIC</b> .....	<b>2</b>
<b>4. FINANCIAL AND BUSINESS HIGHLIGHTS</b> .....	<b>3</b>
4.1 COVID-19 Financial Impact.....	3
4.2 Financial Highlights .....	3
4.3 Operational Highlights .....	4
<b>5. OUTLOOK</b> .....	<b>4</b>
<b>6. CORPORATE PROFILE</b> .....	<b>5</b>
<b>7. CORPORATE STRATEGY</b> .....	<b>5</b>
7.1 Revenue Models .....	6
7.2 Entertainment Market.....	6
7.3 Simulation and Training Market.....	7
<b>8. NON-IFRS FINANCIAL PERFORMANCE MEASURES</b> .....	<b>7</b>
<b>9. MAIN FINANCIAL DATA</b> .....	<b>7</b>
<b>10. OPERATING RESULTS</b> .....	<b>8</b>
10.1 Revenues .....	8
10.2 Gross Profit.....	9
10.3 Operating Expenses .....	9
10.4 Financial Expenses.....	10
10.5 Income Taxes.....	10
10.6 Net Loss.....	10
<b>11. ADJUSTED EBITDA*</b> .....	<b>10</b>
<b>12. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES</b> .....	<b>11</b>
12.1 Operating Activities .....	11
12.2 Investing Activities .....	11
12.3 Financing Activities .....	11
12.4 Equity.....	12
<b>13. QUARTERLY DATA</b> .....	<b>12</b>
<b>14. FULLY DILUTED SHARE CAPITAL (AUGUST 12, 2020)</b> .....	<b>13</b>
<b>15. RISK AND UNCERTAINTIES</b> .....	<b>13</b>
<b>16. SUBSEQUENT EVENTS</b> .....	<b>13</b>
<b>17. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING</b> .....	<b>13</b>
<b>18. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE</b> .....	<b>14</b>

---

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## D-BOX Technologies Inc.

### First Quarter Ended June 30, 2020

---

#### 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 first quarter ended June 30, 2020, by comparing them to the results of the corresponding period of the previous fiscal year. It also presents a comparison of the balance sheets as at June 30, 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 first quarter ended June 30, 2020. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2020, and this MD&A have been reviewed by the Audit Committee and approved by the Board of Directors of the Corporation on August 12, 2020. 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](http://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.

In the wake of the COVID-19 pandemic fallout, its impact on the Corporation’s business, and government health and safety orders, D-BOX proceeded with the temporary layoff of a significant portion of its workforce, and a reduction of the compensation and hours of the remaining workforce. During this unprecedented crisis, preserving capital to ensure the sustainability of the business is among the Corporation’s top priorities. The local and national governments’ response to the COVID-19 pandemic led to a mandatory temporary shutdown of commercial entertainment venues which adversely affected D-BOX’s activities, revenues, financial position and operating results.

With a current working capital of \$6.0 million including cash on hand of \$4.6 million as of June 30, 2020, and a definitive agreement for a new \$2 million commercial loan with the Business Development Bank of Canada (“BDC”) and a definitive agreement with National Bank of Canada (“NBC”) to replace the existing three-year secured revolving credit facility with NBC by a \$4 million line of credit, the Corporation believes that it has sufficient liquidity to meet its currently anticipated needs for the next twelve months based on current and anticipated market conditions and management’s projections. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic.

There continues to be uncertainty regarding the duration and magnitude of the COVID-19 pandemic and the possibility of a recurrence, making it impossible to forecast the impact on the Corporation’s business and operations, both in the short term and in the long term. 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 Impact

During the fourth quarter of fiscal 2020 and partly during the first quarter ended June 30, 2020, the COVID-19 pandemic led to a mandatory temporary shutdown of entertainment venues around the globe adversely affecting the demand for our products, activities, revenues, gross margin, operating results and financial position. The impacts continued into the second quarter of fiscal 2021.

While several customers have or are planning to reopen, the magnitude and the duration of the full recovery remain uncertain.

### 4.2 Financial Highlights

#### *Highlights for the First Quarter Ended June 30, 2020*

Compared with the first quarter ended June 30, 2019:

- Total revenues decreased from \$7.5 million to \$2.2 million as a result of the adverse impact of the COVID-19 pandemic.
- Recurring revenue decreased from \$2.4 million to \$0.1 million as a result of the adverse impact of the COVID-19 pandemic.
- Revenues related to systems sales from the entertainment market excluding home entertainment decreased from \$2.7 million to \$0.4 million.
- Revenues from home entertainment increased from \$0.1 million to \$0.2 million.
- Revenues from simulation and training decreased from \$2.2 million to \$1.5 million.
- Net loss increased from \$0.6 million to \$1.0 million.
- Adjusted EBITDA\* decreased from \$0.2 million to (\$0.1) million.
- Cash and cash equivalent was \$4.6 million as at June 30, 2020 compared to \$4.1 million as at March 31, 2020. Subsequent to the quarter, D-BOX closed a \$2.0M financing, improving its cash position.

<b>First Quarter Ended June 30</b> (in thousands of dollars, except per share amounts)		
	<b>First Quarter</b>	
	<b>2020</b>	<b>2019</b>
Revenue	2,230	7,533
Net loss	(966)	(606)
Adjusted EBITDA*	(95)	215
Basic and diluted net loss per share	(0.005)	(0.003)
<b>Information from the consolidated balance sheets</b>		
	<b>As at June 30, 2020</b>	<b>As at March 31, 2020</b>
Cash and cash equivalents	4,552	4,116

\* See the "Non IFRS Performance Measures" section on page 7 and the table reconciling adjusted EBITDA\* to net loss on page 11.

- On July 24, 2020, the Corporation entered into a definitive agreement with the National Bank of Canada related to the availability of a line of credit amounting to \$4 million for the ongoing operations and working capital of the Corporation. This line of credit will replace the actual three-year secured revolving credit facility from which an amount of \$4 million was drawn at June 30, 2020 [see Subsequent events on page 13].
- On July 24, 2020, the Corporation also entered into a definitive agreement with the Business Development Bank of Canada related to the availability of a working capital commercial loan of \$2 million [see Subsequent events on page 13].

### 4.3 Operational Highlights

- On March 11, 2020, the World Health Organization declared coronavirus (“COVID-19”) a global pandemic. Most governments have enacted emergency measures to combat the spread of the virus, including travel bans, mandatory closures of nonessential services and businesses and social distancing. These measures have caused material disruption to businesses worldwide resulting in economic uncertainty, supply chain disruption, change in consumer demand. At the present time, D-BOX cannot reliably provide an estimate of the duration or magnitude of the outbreak and its impact on the Corporation’s financial results.
- D-BOX proceeded with the launch of its 3rd Generation Haptic solution which targets racing fans, a market estimated at 75 million fans in the United States. Top sim racing partners took advantage of the rise in interest driven by at-home entertainment. Partners such as SimLab, Vesaro, Rseat, VRX and Sim Seats, generated an increase in D-BOX system sales during the quarter.
- Luger Cinema deploys its first full D-BOX auditorium in Austria’s capital city of Vienna with 60 D-BOX haptic systems through our European partner ECCO.

---

## 5. OUTLOOK

---

The COVID-19 pandemic had an adverse impact on the Corporation’s financial results in the fourth quarter of fiscal year 2020 and in the first quarter of fiscal 2021 and will most likely continue in the second quarter. While there are encouraging news with some entertainment venues already reopened and planning to reopen, the uncertainty related to the magnitude and duration of COVID-19 pandemic could impact the financial performance of the Corporation in future reporting periods.

D-BOX has developed a strong brand globally in the out-of-home entertainment with a significant position in the theatrical and location-based entertainment markets. The Corporation has continued to innovate in the haptic market to strengthen its technological platform.

The home racing simulation segment experienced tremendous growth during the COVID-19 pandemic. The ultra-high precision of its software has allowed D-BOX to gain traction into other markets such as the professional simulation market which benefits from a diversity of verticals including heavy equipment, defense, aerospace, agriculture and commercial racing simulation. No matter the type of content, whether it is a movie, a game or training content, D-BOX can replicate any texture and provide a true-to-life experience.

The size and growth potential for each individual market such as the commercial entertainment, consumer entertainment and professional simulation are large. To optimize sales and efficiency, D-BOX utilizes a diversification of partners to integrate and commercialize its technology in most verticals, except for the theatrical market where D-BOX has a direct sales approach in certain regions.

As a result of the uncertainty caused by the COVID-19 pandemic, managing the Corporation’s cash flows to ensure its sustainability is a top priority. At the same time, D-BOX will accelerate its transformation and continue to leverage its technological platform and its vast ecosystem of partners to penetrate new markets such as home racing simulation and the consumer market.

## 6. CORPORATE PROFILE

D-BOX redefines and creates 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, video games, virtual reality applications, themed entertainment or professional simulation, creating a feeling of presence that makes life resonate like never before.

Three components produce synchronized motion in perfect harmony with the image and sound:

1. D-BOX Motion Code, which programs motion effects frame-by-frame based on visual content.
2. A motion controller serving as an interface between the visual content (films, video games, simulation and training, virtual reality experiences) and the D-BOX motion system.
3. The D-BOX motion system, consisting of proprietary electromechanical actuators built into a platform, seat, or other type of equipment.

As at June 30, 2020, D-BOX had 109 employees compared with 131 employees at June 30, 2019.

## 7. CORPORATE STRATEGY

The Corporation is a leader in the creation and design of immersive entertainment 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.

Examples of Application	
Entertainment Market	Simulation and Training Market
<p><i>Theatrical Entertainment</i></p> <p><i>Commercial Entertainment:</i></p> <ul style="list-style-type: none"> <li>▪ Amusement parks</li> <li>▪ Arcades</li> <li>▪ Museums and planetariums</li> </ul> <p><i>Home Entertainment</i></p> <ul style="list-style-type: none"> <li>▪ Video game</li> <li>▪ Home theatre</li> <li>▪ Consumer entertainment</li> </ul>	<p><i>Simulation and training for:</i></p> <ul style="list-style-type: none"> <li>▪ Automotive</li> <li>▪ Flight</li> <li>▪ Heavy equipment/cranes</li> <li>▪ Racing</li> <li>▪ Wellness</li> </ul>
<p><b>Virtual reality</b> for both the Entertainment and the Simulation and Training markets</p>	

## 7.1 Revenue Models

The Corporation’s revenue streams consist primarily of:

1. Sales or leasing of D-BOX motion systems including motion for seats, motion controllers and electronic interfaces or servers.
2. 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. The Corporation also receives maintenance revenues relating to the use of the motion systems.
3. Sales 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 or OEMs).

## 7.2 Entertainment Market

### Theatrical Entertainment

D-BOX offers its products and services to the theatrical market directly and through partners. There were 195,282 cinema screens<sup>1</sup> 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 add a distinctive draw to their offerings and 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 June 30, 2020, the number of total screens installed or in backlog was 760 compared with 776 a year earlier. Fifty exhibitors had more than one location that integrated the D-BOX motion system and 213 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.

### Commercial and High-End Home Entertainment

The commercial entertainment segments include projects related to theme parks, arcades, museums and planetariums. 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 segment. D-BOX offers its products and services through channel partners including OEMs, integrators and value-added resellers.

The Corporation’s business strategy to increase sales in the commercial entertainment market is 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.

---

<sup>1</sup> Source: 2019 THEME Report as of March 2020



### 7.3 Simulation and Training Market

Simulation and training market sales target a diversified group of industries including: automotive, defence, flight, heavy equipment, racing, and wellness. D-BOX offers its products and services through channel partners including OEMs, integrators and value-added resellers.

The Corporation’s business strategies to increase sales in the Simulation and Training Market 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.

## 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:

- 1) 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.
- 2) 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 9).

## 9. MAIN FINANCIAL DATA

The following tables show selected significant financial information for the first quarter ended June 30, 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	First quarter ended June 30	
	2020	2019
Revenues	2,230	7,533
Gross profit excluding amortization*	1,351	4,706
Net loss	(966)	(606)
Adjusted EBITDA*	(95)	215
Basic and diluted net loss per share	(0.005)	(0.003)

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

Information from the Consolidated Statements of Cash Flows	First quarter ended June 30	
	2020	2019
Cash flows (used in) provided by operating activities	558	(1,065)
Goods held for lease	—	(75)
Additions to property and equipment	—	(48)
Additions to intangible assets	(63)	(201)

The following table shows certain selected significant financial information from the consolidated balance sheets as at June 30, 2020 and March 31, 2020:

(Amounts are in thousands of Canadian dollars).

Information from the Consolidated Balance Sheets	As at June 30, 2020	As at March 30, 2020
Cash and cash equivalents	4,552	4,116
Inventories	6,250	6,531
Working capital	5,950	6,695
Total assets	24,431	26,871
Total current liabilities	9,820	10,916
Total liabilities	10,831	12,521
Equity	13,600	14,350

## 10. OPERATING RESULTS

### 10.1 Revenues

Revenue for the first quarter ended June 30, 2020, decreased 70% to \$2.2 million compared with \$7.5 million for the first quarter ended June 30, 2019. During the fourth quarter of fiscal 2020 and the first quarter ended June 30 2020, the COVID-19 pandemic led to a mandatory temporary shutdown of entertainment venues around the globe adversely affecting the demand for our products, activities, revenues and gross margin. Thus, theatrical entertainment market revenues and commercial entertainment revenues have been adversely impacted by the pandemic.

For the entertainment market, revenue consisted of D-BOX motion system sales to commercial theatrical operators, revenue from right of use, rental and maintenance with respect to admission tickets sold in commercial theatres, system sales to commercial entertainment clients and systems sales to home entertainment customers.

During the first quarter ended June 30, 2020, the entertainment market revenue fell 86% to \$0.7 million compared with \$5.3 million for the first quarter last year. Revenue from theatrical entertainment fell 91% to \$0.4 million in the current quarter from \$4.2 million in the same period last year. These revenues consisted of: (i) D-BOX motion systems sales, down 85% to \$0.3 million (\$1.7 million in 2019) and (ii) recurring revenue from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 96% to \$0.1 million (\$2.4 million in 2019).

Recurring revenue 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.
- Individual performance of exhibitors.

- The average number of D-BOX motion 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.

The entertainment market also includes system sales for commercial entertainment and home entertainment. During the quarter, commercial entertainment systems sales amounted to \$182 thousands for the first quarter of fiscal year 2021 down 82% from \$995 thousands last year. Home entertainment revenues increased 29% to \$190 thousands for the first quarter ended June 30, 2020 compared with \$147 thousands for the same quarter last year.

Revenues also include motion system sales to customers in the simulation and training market who sell D-BOX motion systems under their own brand names. Motion system sales in the simulation and training market were down 33% to \$1.5 million for the first quarter ended June 30, 2020 and compared with \$2.2 million last year.

## 10.2 Gross Profit

The following table reconciles gross profit to gross profit excluding amortization:

(Amounts are in thousands of Canadian dollars)

	First quarter ended June 30	
	2020	2019
Revenues	2,230	7,533
Gross profit	907	4,253
Amortization related to cost of goods sold	444	453
Gross profit excluding amortization*	1,351	4,706
Gross margin excluding amortization	61%	62%

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

For the first quarter ended June 30, 2020, gross profit decreased 79% to \$0.9 million from \$4.3 million for the same period last year. Excluding amortization related to cost of goods sold, gross profit decreased 71% to \$1.4 million (61% of revenues) from \$4.7 million (62% of revenues) for the corresponding period last year.

## 10.3 Operating Expenses

**Government assistance:** As a result of the pandemic, government has put in place a temporary business support program. Due to the significant decline in revenues, the Corporation is eligible for this program. For the first quarter ended June 30, 2020, government assistance accounted for in reduction of operating expenses amounted to \$547 thousand.

**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 first quarter ended June 30, 2020, selling and marketing expenses decreased by 77% to \$0.6 million (26% of revenues) compared with \$2.5 million (34% of revenues) last year.

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

For the first quarter ended June 30, 2020, administration expenses decreased by 40% to \$0.9 million (39% of revenues) from \$1.4 million (19% of revenues) for the same period last year.

**Research and Development:** Research and development expenses mainly include 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.

For the first quarter ended June 30, 2020, research and development expenses decreased by 66% to \$0.3 million (12% of revenues) from \$0.8 million (11% of revenues) for the same period last year.

**Foreign Exchange Loss:** Foreign exchange 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.

For the first quarter ended June 30, 2020, foreign exchange loss amounted to \$66 thousand compared with \$14 thousand for the corresponding period last year.

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 first quarter ended June 30, 2020, financial expenses net of interest income amounted to \$94 thousand compared with \$93 thousand for the same period of the previous 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 first quarter ended June 30, 2020, amounted to \$1.0 million (basic and diluted net loss of \$0.005 per share) compared with a net loss of \$0.6 million (basic and diluted net loss of \$0.003 per share) for the same period last year.

---

## 11. ADJUSTED EBITDA\*

---

Adjusted EBITDA provides useful and complementary information which 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 first quarter ended June 30, 2020, adjusted EBITDA amounted to a loss of \$95 thousand compared with income of \$215 thousand for the same period last year.

The following table reconciles adjusted EBITDA to net loss:

(Amounts are in thousands of Canadian dollars)

	First quarter ended June 30	
	2020	2019
<b>Net loss</b>	<b>(966)</b>	<b>(606)</b>
Amortization of property and equipment	475	417
Amortization of intangible assets	191	258
Amortization of other assets	—	1
Financial expenses (income)	94	93
Income taxes (recovery)	(1)	(7)
Share-based payments	46	45
Foreign exchange loss	66	14
<b>Adjusted EBITDA</b>	<b>(95)</b>	<b>215</b>

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

## 12. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

As at June 30, 2020, working capital decreased to \$6.0 million, compared with \$6.7 million as at March 31, 2020. Current assets decreased by \$1.8 million to \$15.8 million and is mainly due to the reduction of \$2.0 million in accounts receivable and partially compensated by the increase of \$0.5 million from \$4.1 million to \$4.6 million in cash and cash equivalents. Current liabilities decreased by \$1.1 million to \$9.8 million as at June 30, 2020 and is mainly due to the reduction of \$0.6 million in accounts payable and accrued liabilities.

### 12.1 Operating Activities

For the first quarter ended June 30, 2020, cash flows provided by operating activities totalled \$0.6 million compared with cash flows used in operating activities of \$1.1 million for the same quarter last year. This \$1.6 million favorable variance in cash flows related to operating activities is mainly the result of the favorable cash flows variance in accounts payable and accrues liabilities of \$1.4 million.

### 12.2 Investing Activities

For the quarter ended June 30, 2020, cash flows used in investing activities amounted to \$63 thousands compared with \$231 thousands last year.

### 12.3 Financing Activities

For the first quarter ended June 30, 2020, cash flows used in financing activities for payment of lease liabilities amounted to \$74 thousands compared with \$64 thousands last year.

As at June 30, 2020, the effective interest rate of long-term debt was 6.2% (10.7% as at June 30, 2019). Subsequent to quarter-end, the Corporation replaced the existing credit facility [see Subsequent events, section 16, page 13] and received a waiver to be in compliance with all debt covenants as at June 30, 2020. Considering the default in the Corporation's financial ratio conditions at quarter-end, the entire long-term debt was presented in current liabilities.

For the quarter ended June 30, 2020, the interest expense on long-term debt charged to loss amounted to \$48 thousands compared with \$130 thousand including an amount of \$44 thousands accounted for as an accretion expense in 2019.

## 12.4 Equity

Equity decreased \$0.8 million to \$13.6 million as at June 30, 2020, from \$14.4 million as at March 31, 2020. The decrease resulted mainly from the \$1.0 million net loss for the first quarter ended June 30, 2020.

## 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		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenues from the entertainment market</b>								
<i>Theatrical entertainment:</i>								
System sales	266	1,669	582	1,782	1,741	999	1,896	2,688
Rights for use, rental and maintenance	98	1,269	1,821	1,811	2,434	1,831	2,073	2,102
<i>Commercial entertainment system sales</i>	364	2,938	2,403	3,593	4,175	2,830	3,969	4,790
<i>Home entertainment system sales</i>	182	1,300	746	724	995	2,758	2,139	1,312
	190	159	264	174	147	152	145	365
<b>Total revenues from the entertainment market</b>	<b>736</b>	4,397	3,413	4,491	5,317	5,740	6,253	6,467
<b>Revenues from the simulation and training market</b>	<b>1,494</b>	2,163	2,060	1,838	2,216	2,569	2,004	1,619
<b>TOTAL REVENUES</b>	<b>2,230</b>	6,560	5,473	6,329	7,533	8,309	8,257	8,086
<b>Adjusted EBITDA*</b>	<b>(95)</b>	7	276	114	215	267	511	127
<b>Net loss</b>	<b>(966)</b>	(3,096)	(1,615)	(933)	(606)	(551)	(177)	(748)
<b>Basic and diluted net loss per share</b>	<b>(0.005)</b>	(0.019)	(0.008)	(0.006)	(0.003)	(0.003)	(0.001)	(0.005)
(in thousands)								
Weighted average number of common shares outstanding	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 11.

---

## 14. FULLY DILUTED SHARE CAPITAL (AUGUST 12, 2020)

---

	Class A common shares
Class A common shares outstanding	175,950,573
Convertible instruments	
Stock-options outstanding	14,078,289
Warrants	2,000,000
	192,028,862

---

## 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](http://www.sedar.com).

---

## 16. SUBSEQUENT EVENTS

---

On July 24, 2020, the Corporation signed a definitive agreement with the National Bank of Canada [“NBC”] related to the availability of a line of credit amounting to \$4 million for the ongoing operations and working capital of the Corporation. This line of credit will be renewable annually and will bear interest at prime rate plus 3.25%. The line of credit will be secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary, and will replace the three-year secured revolving credit facility with the NBC from which an amount of \$4 million was drawn at June 30, 2020.

On July 24, 2020, the Corporation also signed a definitive agreement with the Business Development Bank of Canada [“BDC”] related to the availability of a working capital commercial loan of \$2 million. This loan will bear interest at a variable rate, currently 4.55%, and will be payable in 24 monthly instalments of \$33 thousand from June 2021 to May 2023 and by a final payment of \$1.2 million in June 2023. The loan will be secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.

---

## 17. 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 measure of analysis of effective controls 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 June 30, 2020, to the exception of the above additional measure of analysis of effective controls mentioned above, 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.

---

## **18. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE**

---

This MD&A was prepared as at August 12, 2020. Additional information can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

D-BOX®, D-BOX Motion Code®, LIVE THE ACTION®, MOTION ARCHITECTS®, MOVE THE WORLD® and FEEL IT ALL® are trademarks of D-BOX Technologies Inc. Other names are for informational purposes only and may be trademarks of their respective owners.