



Management's Discussion and Analysis

**D-BOX Technologies Inc.
Second Quarter Ended September 30, 2020**

Table of Contents

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

D-BOX Technologies Inc.

Second Quarter Ended September 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 second quarter and the six-month period ended September 30, 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 September 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 second quarter and the six-month period ended September 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 and the six-month period ended September 30, 2020, and this MD&A have been reviewed by the Audit Committee, and approved by the Board of Directors of the Corporation on November 11, 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. 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 six-month period, certain restrictions were lifted, however, 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 Impact

During the second quarter ended September 30, 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 quarters of fiscal 2021 ending March 31 and the magnitude and duration of the full recovery remain uncertain.

4.2 Financial Highlights

Highlights for the Second Quarter Ended September 30, 2020

- Cash and cash equivalents was \$5.0 million as at September 30, 2020 compared to \$4.1 million as at March 31, 2020, while during the same period, cash flow provided by working capital items has generated \$2.6 million, the line of credit balance decreased by \$1.0 million and long-term debt increased by \$2.0 million.
- Total revenues decreased to \$2.9 million from \$6.3 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss remained flat at \$0.9 million compared to the same period last year.
- Adjusted EBITDA* decreased to (\$0.6) million from \$0.1 million for the same period last year.

Highlights for the six-month period ended September 30, 2020

- Total revenues decreased to \$5.1 million from \$13.9 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss increased to \$1.9 million from \$1.5 million for the same period last year.
- Adjusted EBITDA* decreased to (\$0.7) million from \$0.3 million for the same period last year.

Second quarter and Six-month period ended September 30 (in thousands of dollars, except per share amounts)				
	Second Quarter		Six-month Period	
	2020	2019	2020	2019
Revenues	2,917	6,329	5,146	13,862
Net loss	(954)	(933)	(1,920)	(1,539)
Adjusted EBITDA*	(571)	114	(667)	329
Basic and diluted net loss per share	(0.005)	(0.005)	(0.010)	(0.008)
Information from the consolidated balance sheet				
	As at September 30, 2020		As at March 31, 2020	
Cash and cash equivalents	4,979		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 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 is renewable annually and bears interest at prime rate plus 3.25%. The line of credit, from which an amount of \$3 million was drawn at September 30, 2020, is secured by first-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary, and replaces the three-year secured revolving credit facility with the NBC.
- 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 bears interest at a variable rate, currently 4.55%, and is 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 is secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.

4.3 Operational Highlights

- Jaymar, a leading manufacturer of upholstered furniture in Canada, and D-BOX partnered to offer consumers a recliner that integrates D-BOX haptic technology, providing fans of TV series, movies and video games with immersive and haptic experiences.
- As part of its gaming strategy, D-BOX has been locking in a lineup of video game franchises such as Ubisoft’s latest Assassin’s Creed Valhalla, Microsoft’s Flight Simulator, and Slightly Mad Studios’ Project CARS 3.
- The Fédération Internationale de l’Automobile (FIA), the governing body of motor sport & mobility, announced the exclusive endorsement of D-BOX products. D-BOX motion system enables drivers to feel an incredibly powerful and reliable simulator that responds precisely to any in-game situation. The experience features subtle cues based on pavement variations, vehicle physics, acceleration, deceleration, braking, cornering, suspension feedback, traction, weather conditions and speed.

5. OUTLOOK

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

The U.S. consumer spending in the home entertainment segment, which grew 8.4% to \$25.2 billion in 2019 and 25.7% for the first half of 2020, is led by streaming services and video-on-demand. D-BOX will be launching through a commercial partnership an immersive and haptic home entertainment system to reach a broader consumer base later this 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.

For D-BOX, the video game market is expected to become, as well, an important revenue contributor in years to come with a market opportunity for the gaming and streaming gear estimated at over \$36 billion by Jon Peddie Research. Gamers have long time adopted basic haptics technology, with rumbles on video game controllers. D-BOX’s vision is that the haptic cues enhance the emotional experience and immersivity, as well as improve the performance of gamers. D-BOX is in active discussions with gaming peripherals vendors.

The size and growth potential for the professional simulation and commercial entertainment, 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. The simulation and training segment has been resilient as a result of the home racing simulation success in the past few months. Moreover, the ultra-high precision of the software has allowed D-BOX to gain traction into other professional simulation submarket segments such as in the heavy equipment, defense, aerospace, agriculture and commercial racing simulation. While the commercial entertainment market has suffered adverse impacts from the COVID-19, we remain cautiously optimistic of a recovery in the beginning of next fiscal year.

While there are encouraging news about potential treatments and certain countries managing well the spread of the virus, 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 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.

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, 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 built into a platform, seat, or other type of equipment.

As of September 30, 2020, after proceeded to the rightsizing of his workforce, D-BOX had 87 employees compared with 136 employees at September 30, 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:
 - gaming chairs;
 - game controllers; and
 - racing rigs
- virtual reality home systems
- manufacturers of furniture

The haptic experience at home is growing rapidly and major technology players 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 the new players. The strategy is to enter into business partnerships with companies operating in these markets to integrate the D-BOX haptic experience in their products and to commercialize new products and applications.

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.

Entertainment	Simulation And Training
<p>Sub-markets:</p> <ul style="list-style-type: none"> ▪ Theme Parks ▪ Arcades, Location-based entertainment ▪ Museums and planetariums ▪ Theatrical 	<p>Sub-markets:</p> <ul style="list-style-type: none"> ▪ Automobile & Racing ▪ Defense ▪ Flight ▪ Heavy Equipment ▪ Wellness
<p>Virtual Reality for both the Entertainment and the Simulation and Training Markets</p>	

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 screens¹ 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 September 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.

¹ Source: 2019 THEME Report as of March 2020

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 11).

9. MAIN FINANCIAL DATA

The following tables show selected significant financial information for the second quarter and six-month period ended September 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	Second Quarter ended September 30		Six-month Period ended September 30	
	2020	2019	2020	2019
Revenue	2,917	6,329	5,146	13,862
Gross profit excluding amortization*	1,305	3,858	2,655	8,564
Net loss	(954)	(933)	(1,920)	(1,539)
Adjusted EBITDA*	(571)	114	(667)	329
Basic and diluted net loss per share	(0.005)	(0.005)	(0.010)	(0.008)

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

Information from the Consolidated Statements of Cash Flows	Six-month Period ended September 30	
	2020	2019
Cash flows provided by (used in) operating activities	244	(1,306)
Additions to intangible assets	(219)	(558)
Additions to property and equipment	(2)	(357)
Cash flows provided by (used in) financing activities	795	(1,126)

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

(Amounts are in thousands of Canadian dollars)

Information from the Consolidated Balance Sheets	As at September 30, 2020	As at March 30, 2020
Cash and cash equivalents	4,979	4,116
Inventories	5,656	6,531
Total assets	23,349	26,871
Total current liabilities	7,941	10,916
Total liabilities	10,627	12,521
Equity	12,722	14,350

10. OPERATING RESULTS

10.1 Revenues

Revenues for the second quarter ended September 30, 2020, decreased 54% to \$2.9 million compared with \$6.3 million for the second quarter ended September 30, 2019. For the six-month period ended September 30, 2020, total revenues were \$5.1 million, down 63% from \$13.9 million for the same period last year.

During the second quarter of fiscal 2021 and the six-month period ended September 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 profit. Thus, theatrical entertainment market revenues and commercial entertainment revenues have been adversely impacted by the pandemic.

Home Entertainment Market

Home entertainment revenues decreased 15% from \$174 thousand for the second quarter ended September 30, 2019 compared to \$148 thousand this year. For the six-month period ended September 30, 2020, home entertainment revenue remained the same as last year at \$0.3 million.

Commercial - Entertainment Market

For the entertainment market, revenue consisted of D-BOX haptic system sales to commercial theatrical operators, revenue from rights for 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 second quarter ended September 30, 2020, the entertainment market revenue fell 83% to \$0.8 million compared with \$4.5 million for the second quarter last year. Revenues from theatrical entertainment fell 88% to \$0.4 million in the current quarter from \$3.6 million in the same period last year. These revenues consisted of: (i) DBOX haptic systems sales, down 90% to \$0.2 million (\$1.8 million in 2019) and (ii) recurring revenue from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 86% to \$0.2 million (\$1.8 million in 2019).

For the six-month period, the entertainment market revenues fell 85% to \$1.5 million compared with \$9.8 million for the six-month period last year. Revenues from theatrical entertainment fell 90% to \$0.8 million in the current six-month period from \$7.8 million in the same period last year. These revenues consisted of: (i) D-BOX haptic systems sales, down

87% to \$0.5 million (\$3.5 million in 2019) and (ii) recurring revenues from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 92% to \$0.3 million (\$4.2 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.

The entertainment market also includes system sales for themed entertainment which consist of projects related to location-based entertainment, theme parks, arcades, museums. During the quarter, themed entertainment systems sales amounted to \$183 thousand for the second quarter of fiscal 2021, down 75% from \$724 thousand last year. For the six-month period ended September 30, 2020, themed entertainment systems sales decreased 78% to \$372 thousand compared with \$1.7 million last year.

Commercial - Simulation and Training Market

Revenues also include haptic system sales to customers in the simulation and training market that sell D-BOX haptic systems under their own brand names. Haptic system sales in the simulation and training market were up 17% to \$2.2 million for the second quarter ended September 30, 2020 from \$1.8 million last year. This increase was mainly due to the racing simulation sub-market. For the six-month period ended September 30, 2020, sales fell 10% to \$3.6 million from \$4.1 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)

	Second Quarter ended September 30		Six-month Period ended September 30	
	2020	2019	2020	2019
Revenues	2,917	6,329	5,146	13,862
Gross profit	871	3,468	1,778	7,721
Amortization related to cost of goods sold	434	390	877	843
Gross profit excluding amortization*	1,305	3,858	2,655	8,564
Gross margin excluding amortization	45%	61%	52%	62%

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

For the second quarter ended September 30, 2020, gross profit decreased 75% to \$0.9 million from \$3.5 million for the same period last year. Excluding amortization related to cost of goods sold, gross profit decreased 66% to \$1.3 million (45% of revenues) from \$3.9 million (61% of revenues) for the corresponding period last year.

For the six-month period ended September 30, 2020, gross profit stood at \$1.8 million down 77% from \$7.7 million for 2019. Excluding amortization related to cost of goods sold, gross profit fell 69% to \$2.7 million (52% of revenues) for the six-month period ended September 2020 from \$8.6 million (62% of revenues) year over 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 the ‘Canada Emergency Wage Subsidy’. For the second quarter ended September 30, 2020, government assistance accounted for in reduction of operating expenses amounted to \$0.9 million.

For the six-month period ended September 30, 2020, government assistance was \$1.5 million.

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 second quarter ended September 30, 2020, selling and marketing expenses decreased by 56% to \$0.9 million (31% of revenues) compared with \$2.1 million (32% of revenues) last year.

For the six-month period ended September 30, 2020, selling and marketing expenses were \$1.5 million (29% of revenues) down 68% from \$4.6 million (33% of revenue) year over year.

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

For the second quarter ended September 30, 2020, administration expenses decreased by 46% to \$0.8 million (26% of revenues) from \$1.4 million (22% of revenues) for the same period last year.

For the six-month period ended September 30, 2020, administration expenses stood at \$1.6 million (31% of revenues) down 43% from \$2.8 million (20% of revenue) for the same period ended September 2019.

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.

For the second quarter ended September 30, 2020, research and development expenses decreased by 29% to \$0.4 million (14% of revenues) from \$0.6 million (9% of revenues) for the same period last year.

For the six-month period ended September 30, 2020, research and development expenses totalled \$0.7 million (13% of revenues) down 51% from \$1.4 million (10% of revenues) for the same period of the previous year.

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.

For the second quarter ended September 30, 2020, foreign exchange gain amounted to \$335 thousand compared with a \$99 thousand loss for the corresponding period last year.

For the six-month period ended September 30, 2020, the foreign exchange gain amounted to \$270 thousand compared with a \$113 thousand lost for the first half of the previous 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 second quarter ended September 30, 2020, financial expenses net of interest income amounted to \$98 thousand compared with \$280 thousand for the same period of the previous year.

For the six-month period ended September 30, 2020, financial expenses net of interest income reached \$191 thousand compared with \$373 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 second quarter ended September 30, 2020, amounted to \$0.9 million (basic and diluted net loss of \$0.005 per share) compared with a net loss of 0.9 million (basic and diluted net loss of \$0.005 per share) for the same period last year.

For the six-month period ended September 30, 2020, net loss amounted \$1.9 million (basic and diluted net loss of \$0.010 per share) compared with a net loss of \$1.5 million (basic and diluted net loss of \$0.008 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 second quarter ended September 30, 2020, adjusted EBITDA amounted to a loss of \$571 thousand compared with income of \$114 thousand for the same period last year.

For the six-month period ended September 30, 2020, adjusted EBITDA amounted to a loss of \$0.7 million compared with an income of \$0.3 million year over year.

The following table reconciles adjusted EBITDA to net loss:

(Amounts are in thousands of Canadian dollars)

	Second quarter ended September 30		Six-month Period ended September 30	
	2020	2019	2020	2019
Net loss	(954)	(933)	(1,920)	(1,539)
Amortization of property and equipment	401	439	876	856
Amortization of intangible assets	189	204	380	462
Amortization of other assets	—	1	—	2
Loss on disposal of property and equipment	—	2	—	2
Financial expenses (income)	98	280	191	373
Income taxes (recovery)	(1)	6	(1)	(1)
Share-based payments	31	16	77	61
Foreign exchange loss (gain)	(335)	99	(270)	113
Adjusted EBITDA	(571)	114	(667)	329

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

12. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

As at September 30, 2020, working capital increased to \$7.3 million, compared with \$6.7 million as at March 31, 2020. Current assets decreased by \$2.4 million to \$15.3 million and was mainly due to the reduction of \$2.7 million in accounts receivable, a reduction of \$0.9 million in inventories and partially offset by the increase of \$0.9 million from \$4.1 million to \$5 million in cash and cash equivalents. Current liabilities decreased by \$3.0 million to \$7.9 million as at September 30, 2020 and was mainly due to the reduction of \$3.9 million in the current portion of long-term debt, a reduction of \$1.3 million in accounts payable and accrued liabilities and partially offset by the increase of \$3.0 million in credit facility.

12.1 Operating Activities

For the six-month period ended September 30, 2020, cash flows provided by operating activities totalled \$0.3 million compared with cash flows used in operating activities of \$1.3 million for the same period last year. This \$1.6 million favorable variance in cash flows related to operating activities was mainly the result of the net favorable cash flows variance of \$4.1 million in working capital items less a cash flow variance of \$0.7 million in employee benefit liability and less a cash flow variance of \$1.0 million in unrealized foreign exchange gain and \$0.8 million negative change resulted from a decrease in cash generated by other operations items.

12.2 Investing Activities

For the six-month period ended September 30, 2020, cash flows used in investing activities amounted to \$0.2 million compared with \$1.0 million last year. The \$0.8 million variance consists mainly of a reduction in investment property and equipment (\$0.4 million) and in intangible assets (\$0.3 million).

12.3 Financing Activities

For the six-month period ended September 30, 2020, cash flows provided by financing activities amounted to \$0.8 million compared with cash used of \$1.1 million last year. The \$1.9 million favourable variance comes from additional net financing during the period.

For the six-month period ended September 30, 2020, the interest expense on long-term debt charged to loss amounted to \$105 thousand compared with \$303 thousand in 2019.

12.4 Equity

Equity decreased \$1.6 million to \$12.7 million as at September 30, 2020, from \$14.4 million as at March 31, 2020. The decrease resulted mainly from the \$1.9 million net loss for the six-month period ended September 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues from Home Entertainment								
<i>System sales</i>	148	190	159	264	174	147	152	145
Revenues from the Commercial markets								
<i>System Sales:</i>								
<i>Simulation and training</i>	2,150	1,494	2,163	2,060	1,838	2,216	2,569	2,004
<i>Themed entertainment</i>	183	182	1,300	746	724	995	2,758	2,139
<i>Theatrical entertainment</i>	187	266	1,669	582	1,782	1,741	999	1,896
<i>Rights for use, rental and maintenance</i>	249	98	1,269	1,821	1,811	2,434	1,831	2,073
TOTAL REVENUES	2,917	2,230	6,560	5,473	6,329	7,533	8,309	8,257
TOTAL SYSTEM SALES	2,668	2,132	5,291	3,652	4,518	5,099	6,478	6,184
Adjusted EBITDA*	(571)	(95)	7	276	114	215	267	511
Net loss	(954)	(966)	(3,096)	(1,615)	(933)	(606)	(551)	(177)
Basic and diluted net loss per share	(0.005)	(0.005)	(0.019)	(0.008)	(0.005)	(0.003)	(0.003)	(0.001)
(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 12.

14. FULLY DILUTED SHARE CAPITAL (NOVEMBER 11, 2020)

	Class A common shares
Class A common shares outstanding	175,950,573
Convertible instruments	
Stock-options outstanding	13,531,622
Warrants	2,000,000
	191,482,195

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 September 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.

17. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

This MD&A was prepared as at November 11, 2020. Additional information can be found on the SEDAR website at www.sedar.com.

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