Consolidated Financial Statements

D-BOX Technologies Inc.

March 31, 2020

MANAGEMENT REPORT

The accompanying consolidated financial statements of **D-BOX Technologies Inc.** and all the information in the management's discussion and analysis ["**MD&A**"] are the responsibility of management.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ["**IFRS**"]. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the MD&A is consistent with that in the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and the MD&A and ensuring that management fulfills its financial reporting responsibilities. The Board discharges its responsibility primarily through its Audit Committee.

The Audit Committee is appointed by the Board and all its members are independent directors. The Committee meets periodically with management, as well as the independent auditors, to discuss internal control over financial reporting, audit matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements, the independent auditor's report and the MD&A. The Committee reports its findings to the Board for consideration when it approves the consolidated financial statements and the MD&A for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The independent auditor has full and free access to the Audit Committee.

Signed:

Sébastien Mailhot
President and Chief Executive Officer
Montréal, Canada

July 3, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

D-BOX Technologies Inc.

Opinion

We have audited the consolidated financial statements of D-BOX Technologies Inc. and its subsidiaries [the "Corporation"], which comprise the consolidated balance sheets as at March 31, 2020 and 2019, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at March 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Patrick Bertrand-Daoust.

Ernst & Young LLP [1]

Montréal, Canada
July 3, 2020

[1] CPA auditor, CA, public accountancy permit no. A118785

D-BOX Technologies Inc.
CONSOLIDATED BALANCE SHEETS

As at March 31
[in thousands of Canadian dollars]

	Notes	2020 $	2019 $
ASSETS	11		
Current assets			
Cash and cash equivalents		**4,116**	9,635
Accounts receivable	3	**6,474**	6,462
Inventories	4	**6,531**	7,526
Prepaid expenses and deposits		**490**	906
		17,611	24,529
Non-current assets			
Property and equipment	5	**5,589**	6,002
Intangible assets	6	**2,581**	3,165
Finance leases receivable	7	**461**	—
Other assets		**629**	68
		26,871	33,764
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	**4,730**	6,608
Derivative financial instruments	17	**846**	126
Warranty provision		**114**	162
Deferred revenues		**953**	654
Current portion of lease liabilities	10	**273**	—
Current portion of long-term debt	11	**4,000**	4,853
		10,916	12,403
Non-current liabilities			
Lease liabilities	10	**1,056**	—
Employee benefits		**549**	838
		12,521	13,241
Equity			
Share capital	12.1	**62,762**	62,762
Share-based payments reserve	12.2	**2,149**	5,534
Warrants reserve	12.3	**—**	528
Foreign currency translation reserve		**(514)**	(436)
Deficit		**(50,047)**	(47,865)
		14,350	20,523
		26,871	33,764

Commitments *[note 15]*
Contingency *[note 18]*
Subsequent events *[note 19]*

See accompanying notes.

On behalf of the Board,

Jean-René Halde
Director

Sébastien Mailhot
Director

D-BOX Technologies Inc.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the years ended March 31
[in thousands of Canadian dollars, except share and per-share amounts]

	Notes	2020 $	2019 $
Revenues	13.2		
Entertainment market:			
Commercial theatres:			
Motion system sales		**5,774**	7,780
Rights for use, rental and maintenance		**7,335**	8,611
		13,109	16,391
Commercial entertainment system sales		**3,765**	8,721
Home entertainment system sales		**744**	915
		17,618	26,027
Simulation and training market			
Motion system sales		**8,277**	8,137
		25,895	34,164
Cost of goods sold excluding amortization	4, 13.3	**10,052**	13,588
Amortization related to cost of goods sold		**1,906**	1,836
Cost of goods sold		**11,958**	15,424
Gross profit		**13,937**	18,740
Other expenses			
Selling and marketing	13.4	**8,975**	9,799
Administration	13.5	**5,771**	6,805
Research and development	13.6	**2,958**	2,968
Impairment of property and equipment	5	**765**	—
Impairment of intangible assets	6	**508**	—
Impairment of finance leases receivable	7	**52**	—
Foreign exchange loss		**605**	334
		19,634	19,906
Loss before financial expenses and income taxes		**(5,697)**	(1,166)
Financial expenses (income)			
Financial expenses		**642**	609
Interest income		**(97)**	(80)
		545	529
Loss before income taxes		**(6,242)**	(1,695)
Income taxes	14	**8**	10
Net loss		**(6,250)**	(1,705)
Items that will be reclassified to net loss in subsequent periods:			
Foreign currency translation loss		**(78)**	(26)
Comprehensive loss		**(6,328)**	(1,731)
Basic and diluted net loss per share		**(0.036)**	(0.010)
Weighted average number of common shares outstanding	12.1	**175,950,573**	175,950,573

See accompanying notes.

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

For the years ended March 31
[in thousands of Canadian dollars]

	Notes	Share capital $	Share-based payments reserve $	Warrants reserve $	Foreign currency translation reserve $	Deficit $	Total $
Balance as at March 31, 2018		62,762	5,377	528	(410)	(46,160)	22,097
Net loss		—	—	—	—	(1,705)	(1,705)
Foreign currency translation loss		—	—	—	(26)	—	(26)
Comprehensive loss		—	—	—	(26)	(1,705)	(1,731)
Share-based payments	12.2	—	157	—	—	—	157
Balance as at March 31, 2019		**62,762**	**5,534**	**528**	**(436)**	**(47,865)**	**20,523**
Net loss		**—**	**—**	**—**	**—**	**(6,250)**	**(6,250)**
Foreign currency translation loss		**—**	**—**	**—**	**(78)**	**—**	**(78)**
Comprehensive loss		**—**	**—**	**—**	**(78)**	**(6,250)**	**(6,328)**
Share-based payments	12.2	**—**	**155**	**—**	**—**	**—**	**155**
Cancellation of stock options	12.2	**—**	**(3,540)**	**—**	**—**	**3,540**	**—**
Expiration of warrants	12.3	**—**	**—**	**(528)**	**—**	**528**	**—**
Balance as at March 31, 2020		**62,762**	**2,149**	**—**	**(514)**	**(50,047)**	**14,350**

See accompanying notes.

D-BOX Technologies Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31
[in thousands of Canadian dollars]

	Notes	2020 $	2019 $
OPERATING ACTIVITIES			
Net loss		**(6,250)**	(1,705)
Items not affecting cash			
Amortization of property and equipment	5	**1,914**	1,934
Amortization of intangible assets	6	**905**	800
Amortization of other assets		**2**	3
Impairment of property and equipment	5	**765**	—
Impairment of intangible assets	6	**508**	—
Impairment of finance leases receivable	7	**52**	—
Loss on disposal of property and equipment		**2**	—
Gain on finance lease transactions		**(334)**	—
Share-based payments	12.2	**155**	157
Unrealized foreign exchange loss		**385**	66
Employee benefit liability		**431**	343
Accretion of interest expense	11	**147**	160
Cash flows (used in) provided by operations before changes in working capital items		**(1,318)**	1,758
Changes in working capital items:			
Accounts receivable		**(558)**	(1,340)
Inventories		**995**	235
Prepaid expenses and deposits		**416**	(412)
Goods held for lease		**(308)**	(88)
Other assets		**(558)**	5
Accounts payable and accrued liabilities		**(2,662)**	(33)
Derivative financial instruments		**720**	54
Warranty provision		**(48)**	(75)
Deferred revenues		**299**	307
		(1,704)	(1,347)
Cash flows (used in) provided by operating activities		**(3,022)**	411
INVESTING ACTIVITIES			
Additions to property and equipment		**(474)**	(395)
Disposal of property and equipment		**43**	37
Additions to intangible assets		**(819)**	(714)
Cash flows used in investing activities		**(1,250)**	(1,072)
FINANCING ACTIVITIES			
Payment of lease liabilities		**(280)**	—
Repayment of long-term debt		**(5,000)**	—
Proceeds from long-term debt		**4,000**	—
Cash flows used in financing activities		**(1,280)**	—
Effect of exchange rate fluctuations on cash and cash equivalents		**33**	155
Net change in cash and cash equivalents		**(5,519)**	(506)
Cash and cash equivalents, beginning of year		**9,635**	10,141
Cash and cash equivalents, end of year		**4,116**	9,635
Cash and cash equivalents consist of:			
Cash		**748**	2,289
Cash equivalents		**3,368**	7,346
Interest and income taxes included in operating activities:			
Interest paid		**218**	350
Income taxes paid		**1**	80

See accompanying notes.

1. DESCRIPTION OF BUSINESS

D-BOX Technologies Inc. [“D-BOX” or the “Corporation”], incorporated under the *Canada Business Corporations Act*, is domiciled at 2172 de la Province Street, Longueuil, Québec, Canada.

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

The Corporation evaluates its operating results and allocates resources based on its one operating segment which is the design, manufacture and sale of cutting-edge motion systems. Based on the nature of the Corporation’s clients, two significant markets have been identified: the entertainment and the simulation and training markets. The entertainment market comprises motion systems installed in commercial theatres, commercial entertainment motion systems and home entertainment consumer products [particularly video games and home theatres]. The simulation and training market consists of products for industrial simulators, industrial training and other applications.

The consolidated financial statements were approved by the Corporation’s Board of Directors on July 3, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and share-based payment liability, which are measured at fair value. The significant accounting policies are summarized below.

2.2 Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, D-BOX USA INC. and D-BOX Entertainment Technology (Shanghai) Co. Ltd., which uses the same accounting policies and fiscal year-end as the Corporation. All intercompany balances and transactions have been eliminated on consolidation.

2.3 Significant judgments and estimates

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

The recent COVID-19 outbreak was characterized as a pandemic by the World Health Organization in March 2020. This has resulted in governments worldwide, including Canada, the US and in Europe and Asia, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and resulting in an economic slowdown and creating significant disruption in supply chain and economic activity and are having a particularly adverse impact on the entertainment industry. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. The Corporation has taken several measures to help mitigate the current impact, including the temporary lay-off of a large portion of its workforce, except for its critical head-office functions. Individuals not impacted by the temporary layoffs have taken a temporary reduction of their pay. In addition, the Corporation is taking steps to reduce discretionary spending and defer cash expenditures where possible.

The uncertainties around COVID-19 required the use of judgments and estimates. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's financial condition, operations and financial results are subject to significant uncertainty. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the expected credit losses on accounts receivable, finance leases receivable as well as property and equipment and intangible assets impairment.

2.3.1 Judgments

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

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

2.3.2 Estimates

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

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

2.3.2.1 Impairment of non-financial assets

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

2.3.2.2 Intangible assets

Development costs related to D-BOX motion technology are capitalized in accordance with the accounting policy described in note 2.13. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and forecasted revenues. For purpose of impairment testing, the Corporation exercises judgment to identify the cash inflows and outflows. The recoverable amount is based on fair value less costs of disposal, generally determined using a discounted cash flow model. Other assumptions used to determine the recoverable amount include the applicable discount rate and the expected future cash flows which include costs to complete the development activities.

2.3.2.3 Provision for expected credit losses of trade accounts receivables

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

2.3.2.4 Deferred tax assets

Deferred tax assets are measured by management using its estimate of the value of future taxable income against which the deductible temporary differences, unused tax loss carry-forwards and unused tax credits can be utilized. Such estimates are made when preparing the budgets and strategic plans by tax jurisdiction on an undiscounted basis. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable income and the availability of tax planning strategies.

2.3.2.5 Tax credits

Investments tax credits related to eligible expenses are recognized by management based on the estimate of recoverable amounts. These claims are subject to an audit by the tax authorities and may ultimately differ from the initial estimate.

2.4 Foreign currency translation

The Corporation's consolidated financial statements are expressed in Canadian dollars, which is its functional currency.

2.4.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate at the date of the transaction. At the end of each reporting period:

- Foreign currency monetary assets and liabilities are translated using the closing rate. Resulting exchange differences are recognized in income (loss) for the year;
- Foreign currency non-monetary assets and liabilities are recognized using the historical rate at the date of the transaction.

2.4.2 Translation of the subsidiary's financial statements

The functional currency of the subsidiaries is the US dollar for D-BOX USA Inc. and the RMB for D-BOX Entertainment Technology (Shanghai) Co. Ltd. The balance sheet is translated into Canadian dollars at the closing rate, that is, the exchange rate at the end of the reporting period. Income (loss) and cash flows are translated at the average exchange rates. Differences resulting from this translation are recorded as a foreign currency translation gain (loss) in other comprehensive income (loss).

On the sale of a foreign entity, the translation differences previously recognized in other comprehensive income (loss) are recognized in the consolidated statements of net loss and comprehensive loss.

2.5 Cash and cash equivalents

Cash consists of cash and demand deposits with financial institutions. Cash equivalents consist of investments which are readily convertible into a known amount of cash and which have an original maturity of three months or less.

2.6 Inventories

Finished goods, parts and components are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory impairment charge may be reversed when the circumstances that gave rise to the impairment no longer exist. The cost of finished goods includes the cost of goods and components, labour costs and a portion of manufacturing overhead costs, based on the Corporation's normal operating capacity.

2.7 Property and equipment, intangible assets and other assets

Property and equipment, intangible assets, and other assets are recorded at cost. These assets are amortized over their estimated useful lives using the following methods and rates:

Nature of amortized asset	Method	Period
Property and equipment		
Goods held for lease	Straight-line	7 to 10 years
Furniture and fixtures	Straight-line	7 years
Machinery, equipment, computer hardware and trade show stands	Straight-line	3 to 7 years
Buildings and leasehold improvements	Straight-line	Lease term
Intangible assets		
Patents	Straight-line	Not exceeding 10 years
D-BOX motion technology*	Straight-line	3 to 7 years
Software	Straight-line	4 years

* Internally generated intangible assets.

For finite-life tangible and intangible assets, the Corporation assesses at each reporting date whether there is an indication that the carrying amount may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the cash generating unit's value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

A previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of loss and comprehensive loss.

2.8 Warranty provision

A provision for potential warranty claims is recorded upon revenue recognition based on past experience and warranties offered by the Corporation.

2.9 Share-based payment plan

Compensation expense for options granted to employees and directors under the Corporation's share-based payment plan is recognized over their vesting period. Such share-based payment expense is determined under the fair value method using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options together with the related portion previously credited to the share-based payment reserve is credited to share capital.

For the share unit plans, the fair value of the amount payable to employees and directors is recognized as an expense, with a corresponding increase in liabilities, over the period that the employees and directors unconditionally become entitled to payment. The liability is re-measured at each reporting date. Any changes in the fair value of the liability are recognized in income (loss) as employee costs or in director fees.

2.10 Employee benefits

When the Corporation enters into contractual agreements with employees for long-term employee benefits, a liability and a corresponding expense is recorded as the services are rendered. When the effect of the time value of money is material, the Corporation determines the level of the liability by discounting the expected cash flows.

2.11 Revenue recognition

The Corporation's revenues are generated from the sale or lease of motion systems to entertainment market and simulation and training market clients.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Discounts are estimated based on the most likely amount method and using contractual terms with customers.

Revenue from the sale of motion systems is recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when [or as] the entity satisfies a performance obligation.

In general, revenues arising from sale of motion systems are recognized in income (loss) when the customer obtains control over the system, which generally occurs upon delivery. The cost of systems sold is recognized immediately in income (loss) as cost of goods sold. When the criteria for revenue recognition are not fully met, revenues are recognized in income (loss) as they become due under the terms of the arrangement. In these circumstances, system costs are shown in the consolidated balance sheets under other assets.

Revenues arising from operating leases for motion systems are recognized in income as they become due under the terms of the arrangement, that is, on ticket sales by the commercial theatre for motion system use. System costs are recorded in property and equipment under goods held for lease. As per agreement clauses, the amortization of systems is calculated on a straight-line basis over seven to ten-year period or based on commercial theatre ticket sales when it is estimated that the system will be fully amortized before the expected agreement term not exceeding ten years. Amortization expense is recognized in income (loss) as cost of goods sold.

Revenues arising from motion technology use and maintenance agreements are recognized in income (loss) over the period of service, that is, on commercial usage of motion systems. Costs relating to maintenance are recorded as cost of goods sold as incurred.

In addition to the above general principles, the Corporation applies specific revenue recognition for bill and hold transactions. When customers request a bill and hold, revenue is recognized when the customer is invoiced for goods that have been produced, packaged and made ready for shipment. These goods are shipped within a specified period of time and are segregated from other inventory, the control is transferred to the customer, and the terms and collection experience on the related billings are consistent with all other sales.

2.12 Encoding costs

The costs for encoding movies and games that support D-BOX motion technology are expensed as incurred and included in selling and marketing expenses.

2.13 Research and development costs

Research costs are charged to income (loss) in the year of expenditure. Development costs related to the D-BOX motion technology are capitalized when the Corporation can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use.

2.14 Government assistance and investment tax credits

Government assistance and investment tax credits are recognized when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain such assistance. The Corporation incurs research and development expenses that are eligible for investment tax credits.

Recognized government assistance and refundable investment tax credits are based on management’s estimates of amounts expected to be recovered and are subject to audit by tax authorities.

Government assistance and investment tax credits are recognized as a reduction of the cost of the related assets or expenses in the year in which the expenditures are made when management deems that there is reasonable assurance that the conditions for government assistance or investment tax credits have been met.

2.15 Income taxes

The Corporation follows the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that reflect the tax consequences that would follow from the way that the Corporation expects to recover or settle the carrying amount of its assets and liabilities in the periods in which the deferred tax assets and liabilities are expected to be realized or settled.

Deferred tax assets are recognized to the extent that it is probable that the Corporation's future taxable income will be sufficient to permit the recovery of such assets.

Deferred tax assets and liabilities are accounted for directly through income (loss), other comprehensive income (loss) or equity, based on the classification of the item to which they relate.

2.16 Earnings (loss) per share

Basic earnings (loss) per common share are calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share are calculated taking into account the dilution that could result if stock options for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the fiscal year or the date of issue. The stock options and warrants were not included in the calculation of diluted loss per share because the Corporation sustained losses and including stock options and warrants would have been antidilutive.

2.17 Financial instruments

2.17.1 Classification, measurement and recognition

A financial asset is classified and subsequently measured at amortized cost; fair value through other comprehensive income ["FVTOCI"]; or fair value through profit and loss ["FVTPL"]. The classification is based on two criteria: the Corporation's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding [the "SPPI criterion"]. The Corporation's financial assets are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion and are classified and subsequently measured at amortized cost.

The financial assets classified and subsequently measured at amortized cost consist of cash, accounts receivable and deposits.

A financial liability is classified and subsequently measured at amortized cost or FVTPL. The Corporation's financial liabilities measured at amortized cost consist of accounts payable and accrued liabilities, credit facility, employee benefits, warranty provision and long-term debt are classified as other financial liabilities. They are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently carried at amortized cost using the effective interest method.

The Corporation's financial liability at FVTPL comprise derivative financial instruments. Derivative financial instruments consist of foreign exchange contracts *[note 17.3]* and are accounted for at fair value with changes in fair value recognized in the consolidated statements of net loss and comprehensive loss under "Foreign exchange loss". Derivative financial instruments are recognized as financial assets where fair value is positive and as financial liabilities where it is negative.

Derivative financial instruments are measured at fair value in the consolidated balance sheets and are grouped into the three levels of the fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

The fair value of derivative financial instruments is determined using the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as period-end foreign exchange rates [Level 2 inputs].

2.17.2 Impairment of financial assets measures at amortized cost

The Corporation applies the simplified approach to measuring expected credit losses ["ECL"] which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade accounts receivable have been grouped based on shared risk characteristics and the days past due. The Corporation then applies an ECL based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Trade accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the debtor enters bankruptcy, is in significant financial difficulty or has failed to make contractual payments, unless the Corporation has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

2.17.3 Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when substantially all the risks and rewards of ownership and cash flows have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains and losses on derecognition are recognized within finance income and finance expenses, respectively.

2.18 Adoption of the new accounting standard IFRS-16 - Leases

Prior to April 1, 2019

The Corporation followed IAS 17 where a lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership to the Corporation. A finance lease was capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments were apportioned between interest expense and the reduction of the lease obligation. A lease was classified as an operating lease if it did not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments were recognized as an expense on a straight-line basis over the related lease term.

Effective April 1, 2019

Effective April 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, and represents a major revision of the way in which companies account for leases. It sets out the principles that both parties to a contract, i.e. the customer [“lessee”] and the supplier [“lessor”], apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease following a single model where previously leases were classified as either finance leases or operating leases. Most leases are recognized on the Corporation’s consolidated balance sheets. Certain exemptions apply for short-term leases and leases of low-value assets. The right-of-use asset and lease liability are recognized at the lease commencement date.

Right-of-use of assets

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by amortization expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option when it is reasonably certain that the option will be exercised. Lease terms range from 3 to 6 years.

Lease liabilities

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain that the option will not be exercised. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise [or not to exercise] the option to renew.

Effect of adopting IFRS-16

The adoption of IFRS 16 had an impact on the consolidated balance sheets and statements of loss and comprehensive loss as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense by the liability recorded. In addition, the principal repayments of lease liabilities are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities prior to April 1, 2019.

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

The Corporation applied this standard using the modified retrospective approach [without restating comparative figures] for the fiscal year beginning April 1, 2019. Certain leases were not brought on the Corporation's consolidated balance sheets as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

- Account for leases for which the remaining lease term ends within 12 months of the effecti ve date as short-term leases; and

- Recognize short-term leases and low value leases on a straight-line basis as part of expenses in the consolidated statements of loss and comprehensive loss.

The adoption of IFRS 16 had the following impacts on the consolidated statements of loss and comprehensive loss for the year ended March 31, 2020 and the consolidated balance sheets as at April 1, 2019:

Increase (decrease)	March 31, 2020 $
Amortization related to cost of goods sold	281
Rent expense	(298)
Financial expenses	46
Net loss and comprehensive loss	29

Increase (decrease)	April 1, 2019 $
Property and equipment	760
Lease liabilities	760

The following table presents the reconciliation between the operating leases commitments as at March 31, 2019 and the lease liabilities as at April 1, 2019:

	$
Operating lease commitments as at March 31, 2019	957
Discounted operating lease commitments as at April 1, 2019	(95)
Commitments related to short-term and low-value assets	(102)
Lease liabilities as at April 1, 2019	760

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

The Corporation as a lessor

The Corporation classifies each lease related to commercial theatres motion systems either as an operating or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

For commercial theatre finance leases, the Corporation recognizes, at the commencement of the lease term, a finance lease receivable in the consolidated balance sheets at an amount equals to the fair value of the leased asset, or if lower, the present value of the minimum lease payments. Finance lease income, included within Right for use, rental and maintenance revenue, is recognized each year in a manner that reflect a constant rate of return on the finance lease asset.

For commercial theatres operating leases, the Corporation recognizes operating lease payments as income under Right for use, rental and maintenance as they become due under the term of the agreement, that is, on ticket sales related to commercial usage of motion systems.

3. ACCOUNTS RECEIVABLE

	2020	**2019**
	$	$
Trade accounts receivable	**6,482**	5,821
Allowance for expected credit losses	**(332)**	(74)
	6,150	5,747
Investment tax credits	**254**	443
Commodity taxes receivable	**64**	207
Government assistance receivable	**6**	65
	6,474	6,462

The following table is the movement in the allowance for expected credit losses of trade accounts receivable as at March 31, 2020:

	2020	**2019**
	$	$
Balance, beginning of year	**74**	65
Provision for expected credit losses	**274**	59
Write-off	**(16)**	(50)
	332	74

Information about the credit exposure is disclosed in note 17.2.

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

4. INVENTORIES

	2020	**2019**
	$	$
Parts and components	**5,303**	5,896
Finished goods	**1,228**	1,630
	6,531	7,526

Inventories charged to cost of goods sold amounted to $7,967 in 2020 [$11,466 in 2019].

During fiscal 2020, an impairment charge of $404 [$59 in 2019] was recognized in connection with certain inventories.

5. PROPERTY AND EQUIPMENT

Cost	**2019**	**Additions**	**Disposals and write-off**	**Other changes**	**2020**
	$	$	$	$	$
Goods held for lease	**14,423**	**384**	**(59)**	**(563)** [(1)]	**14,185**
Furniture and fixtures	**364**	**3**	**—**	**—**	**367**
Machinery and equipment	**722**	**14**	**(26)**	**—**	**710**
Computer hardware	**1,752**	**212**	**—**	**—**	**1,964**
Trade show stands	**1,365**	**8**	**—**	**(72)** [(2)]	**1,301**
Buildings and leasehold improvements	**1,558**	**—**	**—**	**1,458** [(3)]	**3,016**
	20,184	**621**	**(85)**	**823**	**21,543**

(1) Includes goods held for lease transferred to inventories during fiscal 2020 in the amount of $1001 and a foreign exchange gain of $438.

(2) Includes the cost of trade show stands transferred to inventories during fiscal 2020 in the amount of $123 and a foreign exchange gain of $51.

(3) Includes $760 related to the IFRS 16 adoption on April 1, 2019 and $698 related to net changes to right-of-use assets during the year.

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

Accumulated amortization	**2019**	**Amortization**	**Disposals and write-off**	**Impairment**	**Other changes**	**2020**
	$	$	$	$	$	$
Goods held for lease	**9,486**	**1,181**	**(41)**	**765** [3]	**(621)** [1]	**10,770**
Furniture and fixtures	**263**	**31**	**—**	**—**	**—**	**294**
Machinery and equipment	**501**	**99**	**(17)**	**—**	**—**	**583**
Computer hardware	**1,388**	**229**	**—**	**—**	**—**	**1,617**
Trade show stands	**1,086**	**34**	**—**	**—**	**(82)** [2]	**1,038**
Buildings and leasehold improvements	**1,458**	**340**	**—**	**—**	**(146)** [4]	**1,652**
	14,182	**1,914**	**(58)**	**765**	**(849)**	**15,954**
Net carrying amount	**6,002**					**5,589**

(1) Includes the accumulated amortization of goods held for lease transferred to inventories during fiscal 2020 in the amount of $993 and a foreign exchange gain of $372.
(2) Includes the accumulated amortization of trade show stands transferred to inventories during fiscal 2020 in the amount of $120 and a foreign exchange gain of $38.
(3) As at March 31, 2020, the Corporation performed an assessment of the recoverable amounts of the goods held for lease related to motion systems for commercial theatres. This analysis was based on discounting the anticipated cash flows related to these leases over the remaining useful lives of the assets, taking into account the effect of the COVID-19 outbreak on the anticipated cash flows. As a result, the Corporation recorded an impairment charge of $765.
(4) Includes $(150) related to net changes to right-of-use assets during the year 2020.

Cost	**2018**	**Additions**	**Disposals and write-off**	**Other changes**	**2019**
	$	$	$	$	$
Goods held for lease	14,995	313	(683)	(202) [1]	14,423
Furniture and fixtures	361	3	—	—	364
Machinery and equipment	706	16	—	—	722
Computer hardware	1,641	111	—	—	1,752
Trade show stands	1435	35	(54)	(51) [2]	1365
Buildings and leasehold improvements	1,542	16	—	—	1,558
	20,680	494	(737)	(253)	20,184

(1) Includes goods held for lease transferred to inventories during fiscal 2019 in the amount of $489 and a foreign exchange gain of $287.
(2) Includes the cost of trade show stands transferred to inventories during fiscal 2019 in the amount of $84 and a foreign exchange loss of $33.

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

Accumulated amortization	2018	Amortization	Disposals and write-off	Other changes	2019
	$	$	$	$	$
Goods held for lease	9,143	1,242	(673)	(226) [1]	9,486
Furniture and fixtures	232	31	—	—	263
Machinery and equipment	401	100	—	—	501
Computer hardware	1,134	254	—	—	1,388
Trade show stands	1,119	73	(51)	(55) [2]	1,086
Building and leasehold improvements	1,224	234	—	—	1,458
	13,253	1,934	(724)	(281)	14,182
Net carrying amount	7,427				6,002

(1) Includes the accumulated amortization of goods held for lease transferred to inventories during fiscal 2019 in the amount of $457 and a foreign exchange loss of $231.
(2) Includes the accumulated amortization of trade show stands transferred to inventories during fiscal 2019 in the amount of $80 and a foreign exchange gain of $25.

The allocation of amortization to the various items in the statements of net loss and comprehensive loss is disclosed in note 13.

6. INTANGIBLE ASSETS

Cost	2019	Additions	Disposals and write-off	2020
	$	$	$	$
Patents	**2,046**	**122**	**—**	**2,168**
D-BOX motion technology *	**4,049**	**735**	**(95)**	**4,689**
Software	**1,370**	**9**	**—**	**1,379**
	7,465	**866**	**(95)**	**8,236**

* Internally generated intangible assets.

Accumulated amortization	2019	Amortization	Disposals and write-off	Impairment	2020
	$	$	$	$	$
Patents	**1,645**	**156**	**—**	**—**	**1,801**
D-BOX motion technology	**1,539**	**623**	**(58)**	**508** [1]	**2,612**
Software	**1,116**	**126**	**—**	**—**	**1,242**
	4,300	**905**	**(58)**	**508**	**5,655**
Net carrying amount	**3,165**				**2,581**

(1) As at March 31, 2020, the Corporation reviewed its projects under development, taking into account the effect of the COVID-19 outbreak on its future plans and management's intention to dedicate financial resources to complete these projects. Consequently, the Corporation recorded an impairment charge of $508.

D-BOX motion technology includes $648 of projects still in development as at March 31, 2020.

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

Cost	**2018**	**Additions**	**Disposals and write-off**	**2019**
	$	$	$	$
Patents	1,840	206	—	2,046
D-BOX motion technology *	3,548	501	—	4,049
Software	1,314	56	—	1,370
	6,702	763	—	7,465

* Internally generated intangible assets.

Accumulated amortization	**2018**	**Amortization**	**Disposals and write-off**	**2019**
	$	$	$	$
Patents	1,486	159	—	1,645
D-BOX motion technology	1,048	491	—	1,539
Software	966	150	—	1,116
	3,500	800	(92)	4,300
Net carrying amount	3,202			3,165

D-BOX motion technology includes $1,157 of projects still in development as at March 31, 2019.

The allocation of amortization to the various items in the statement of net loss and comprehensive loss is disclosed in note 13.

7. FINANCE LEASES RECEIVABLE

The following table presents the reconciliation between the opening and closing balance of the finance leases receivable:

	$
Balance, beginning of the year	—
Additions	513
Lease payments	(11)
Impairment	(52)
Translation adjustment	11
As at March 31, 2020	461

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

Lease payments receivable for the next years are as follows:

	$
2021	147
2022	119
2023	83
2024	83
2025	83
Beyond 5 years	371
Undiscounted lease payments	886
Less: unearned finance income	(373)
Less: impairment	(52)
Finance leases receivable as at March 31, 2020	461

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020 $	**2019** $
Trade accounts payable	**2,442**	2,467
Accrued liabilities (1)	**2,217**	4,010
Credit facility (2)	**29**	78
Income taxes	**42**	53
	4,730	6,608

(1) During fiscal 2020, the Corporation restructured its operations resulting in restructuring costs of $1,403 of which $400 is included in accrued liabilities as at March 31, 2020.

(2) As at March 31, 2020, the Corporation had a bank credit facility secured by a senior deposit in the amount of $466 [$453 as at March 31, 2019] accessible in the form of cash advances on credit cards, which charged variable interest rates ranging from 16.49% to 19.15%.

9. SHARE-BASED PAYMENT LIABILITY

In June 2016, a restricted share unit plan [“RSU”] and a deferred share unit plan [“DSU”] were adopted by the Board of Directors. The liability resulting from these share unit plans is measured at fair value of the underlying share price for each unit at the grant date and measured again at the end of each reporting period and at settlement date. Any change in fair value is recognized in the consolidated statements of net loss and comprehensive loss.

	2020		**2019**	
	RSU Share Units	**DSU Share Units**	**RSU Share Units**	**DSU Share Units**
Balance at beginning of year	**470,000**	**240,000**	470,000	400,000
Units redeemed for cash	**(470,000)**	**(160,000)**	—	(160,000)
Balance at end of year	**—**	**80,000**	470,000	240,000
Units exercisable at end of year	**—**	**80,000**	—	240,000

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

RSU share units vest three years after the grant date and are redeemed for cash or shares at the vesting date or under certain conditions. DSU share units vest 12 months after the grant date and are redeemed for cash or shares upon cessation of participants service for all vested units.

For the year ended March 31, 2020, the share-based payment expense credited to income as employee costs amounted to ($15) [($29) in 2019]. As at March 31, 2020, an amount of $4 was accounted for in accounts payable and accrued liabilities [$100 in 2019].

10. LEASE LIABILITIES

The incremental borrowing rate applied to lease liabilities recognized as at March 31, 2020 is 6.2%. Refer to note 2.18 for further details about the adoption of IFRS 16.

The following table presents the reconciliation between the opening and closing balances of the lease liabilities:

	$
Adoption of IFRS 16 as at April 1, 2019	760
Additions	1,113
Cancellations	(280)
Lease payments	(317)
Interest expense on lease liabilities	46
Translation adjustment	7
As at March 31, 2020	1,329

The expense related to short-term leases and low-value assets leases during the year ended March 31, 2020 was $180.

Lease payments for the next years are as follows:

	$
2021	358
2022	388
2023	263
2024	262
2025	268
Beyond 5 years	45
	1,584
Less interest	255
	1,329

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

11. LONG-TERM DEBT

	2020 **$**	**2019** **$**
Loan	**4,000**	4,853

On July 31, 2019, the Corporation signed a three-year secured revolving credit facility of $5,000 with the National Bank of Canada. This new credit facility matures in three years and bears interest, payable monthly, at an annual rate equal to the National Bank of Canada's floating interest rate applicable to commercial loans in Canadian dollars plus 2.25%. The credit facility is secured by both hypothec and security interests on all assets of the Corporation and its wholly-owned US subsidiary. The amount of the credit facility will gradually decrease over the term of the facility at the end of each quarter, such that the amount of the credit facility at the end of each year will be as follows: $4,500 at the end of year one, $3,800 at the end of year two, and $3,000 at the end of year three.

An amount of $4,000 was drawn from the credit facility at closing to repay, together with cash available, the previous $5,000 loan [plus accrued interest] which was to mature on February 5, 2020.

As at March 31, 2020, the effective interest rate of long-term debt was 6.2% [10.7% as at March 31, 2019]. Subsequent to year-end the Corporation replaced the current credit facility [see note 19 subsequent events] and received a waiver to be in compliance with all debt covenants as at March 31, 2020. Considering the current default of the Corporation's financial ratio conditions at year-end and expected for the following quarter, the entire long-term debt was presented in current liabilities.

During the year ended March 31, 2020, the interest expense on long-term debt charged to loss amounted to $425, including an amount of $147 related to the accretion of interest [$510 including an amount of $160 accounted for as an accretion expense for the year ended March 31, 2019].
As at March 31, 2020, the fair value of long-term debt approximates its carrying value because the terms and conditions were comparable to current market terms and conditions.

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

12. EQUITY

12.1 *Share Capital*

12.1.1 Authorized

Unlimited number of Class A common shares without par value, voting and participating.
Class B preferred shares, issuable in series, ranking senior to Class A common shares. The directors are entitled to determine the number of shares per series and their characteristics [rights, privileges and restrictions].

12.1.2 Issued

Changes in Class A common shares of the Corporation are shown in the following table:

	2020		**2019**	
	#	$	#	$
Balance at end of year	**175,950,573**	**62,762**	175,950,573	62,762

12.2 *Share-based Payment Plan*

In 2015, the Board of Directors established a stock option plan [the "2015 Plan"]. The material terms and conditions of the 2015 Plan are as follows:

[i] The maximum number of Class A common shares in respect of which options may be outstanding under the 2015 Plan and under all of the Corporation's other share-based compensation agreements cannot exceed ten percent of the issued and outstanding Class A common shares of the Corporation at any time;

[ii] No option may be granted to any optionee under the 2015 Plan unless the aggregate number of Class A common shares: (a) issued to "insiders" of the Corporation within any one-year period; and (b) issuable to "insiders" of the Corporation at any time under the 2015 Plan or combined with all other share-based compensation agreements of the Corporation, does not exceed ten percent of the total number of issued and outstanding Class A common shares;

[iii] The exercise price of options is determined by the Board of Directors at the time the options are granted, but may not be less than the weighted-average trading price of the Class A common shares of the Corporation on the Toronto Stock Exchange for the five trading days immediately preceding the day on which an option is granted;

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

[iv] At the time of granting an option, the Board of Directors, in its discretion, may set a "vesting schedule", that is, one or more dates from which an option may be exercised in whole or in part. In such event, the Board of Directors will not be under any obligation to set a "vesting schedule" in respect of any other option granted under the 2015 Plan. If the Board of Directors does not set a "vesting schedule" at the time of granting an option, the option will be deemed to vest over a period of 36 months in three equal instalments, with one-third of the option vesting at twelve-month intervals;

[v] Options expire on the date set by the Board of Directors at the time the option is granted, which date may not be more than 10 years after the grant date.

As at March 31, 2020, a maximum of 17,595,057 options [17,595,057 in 2019] were issuable.

The following tables summarize the changes in the Corporation's stock option plan and information on options outstanding as at March 31:

	2020		**2019**	
	Number **#**	**Weighted average exercise price** $	**Number** **#**	**Weighted average exercise price** **$**
Balance, beginning of year	**15,807,100**	**0.35**	15,049,934	0.37
Options granted	**4,183,000**	**0.11**	1,707,500	0.19
Options cancelled	**(4,480,711)**	**0.47**	(950,334)	0.33
Options expired	**(976,100)**	**0.43**	—	—
Options Exercised	**—**	—	—	—
Balance, end of year	**14,533,289**	**0.24**	15,807,100	0.35

	Options outstanding			**Options exercisable**	
Range of exercise prices $	**Number of options** **#**	**Weighted average remaining life** [in years]	**Weighted average exercise price** $	**Number of options** **#**	**Weighted average exercise price** $
0.08 – 0.12	2,193,000	4.88	0.08	—	—
0.13 – 0.20	6,417,534	6.20	0.17	3,634,201	0.19
0.21 – 0.32	3,031,000	3.36	0.25	3,004,333	0.25
0.33 – 0.42	1,240,755	5.56	0.34	990,504	0.35
0.43 – 0.65	1,651,000	2.45	0.61	1,651,000	0.61
	14,533,289	4.92	0.24	9,280,038	0.30

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

The fair value of the options granted during fiscal 2020 and 2019 was estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions for 2020: 1.35% weighted average risk-free interest rate [1.99% in 2019]; no dividends; 62.2% weighted average volatility factor of the expected market price of the Corporation's shares [65.9% in 2019]; 7.51% weighted average forfeiture rate [6.09% in 2019]; $0.08 weighted average share price [$0.19 in 2019]; and a 5.1-year expected weighted average option life [6.7 years in 2019]. The expected life of stock options is based on historical data and is not necessarily indicative of exercise patterns that might occur. The expected volatility reflects the assumption that historical volatility over a term similar to the option term is indicative of future trends, which might not be the case. The weighted average of the estimated fair values at the grant date of the options awarded during the year is $0.06 per option [$0.12 per option in 2019], amortized through loss over the vesting periods of the options. For the year ended March 31, 2020, the share-based payment expense charged to income amounted to $155 [$157 in 2019] with a corresponding amount recognized under the share-based payments reserve.

For the year ended March 31, 2020, the cancellation and expiry of options resulted in a reclassification of $3,540 from the share-based reserve to the deficit.

12.3 Warrants

Warrants for the year ended March 31, 2020 and 2019 are summarized in the following table:

	2020		**2019**	
	Number #	Exercise price $	Number #	Exercise price $
Cancelled on July 31, 2019 [(a)]	—	—	4,500,000	0.50
Expiring on December 22, 2022	**2,000,000**	[(b)]	2,000,000	[(b)]
Balance, end of year	**2,000,000**		6,500,000	

(a) On July 31, 2019, 4,500,000 warrants were cancelled. An amount of $528, representing the initial fair value of the warrants was credited to deficit and deducted from the warrants reserve. These warrants were issued as part of the loan agreement for which the balance was repaid during the year.

(b) Exercise price corresponds to the volume weighted average price of the Class A common shares on the Toronto Stock Exchange for the five trading days prior to the exercise date of the warrants. All warrants were vested as at March 31, 2020.

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

13. SUPPLEMENTARY INFORMATION ON THE CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

13.1 Cost of goods sold and other expenses

Cost of goods sold and other expenses include:

	2020 **$**	**2019** **$**
Amortization of property and equipment *[note 5]*	**1,914**	1,934
Amortization of intangible assets *[note 6]*	**905**	800
Amortization of other assets	**2**	3
Rent	**180**	491
Loss on derivative financial instruments	**720**	54
Investment tax credits	**(73)**	(79)
Government assistance	**(65)**	(81)

13.2 Revenue allocation

Revenues are geographically allocated as follows:

	2020 **$**	**2019** **$**
United States	**7,598**	10,038
Europe	**6,868**	7,344
Canada	**5,089**	8,282
Asia	**4,115**	6,566
Oceania	**1,118**	63
South America	**938**	1,660
Africa	**169**	211
	25,895	34,164

Revenues are allocated by country based on the client's location.

13.3 Cost of goods sold excluding amortization

The key components of cost of goods sold excluding amortization are detailed as follows:

	2020 **$**	**2019** **$**
Cost of parts and components *[note 4]*	**8,146**	11,466
Employee costs	**1,079**	1,171
Professional fees	**57**	48
Other	**770**	903
	10,052	13,588

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

13.4 Selling and marketing

The key components of selling and marketing expenses are detailed as follows:

	2020 **$**	**2019** **$**
Employee costs	**5,171**	6,129
Professional fees	**805**	890
Advertising, travel and trade show	**1,295**	1,539
Amortization of property and equipment	**183**	117
Restructuring costs	**832**	—
Other	**689**	1,124
	8,975	9,799

13.5 Administration

The key components of administration expenses are detailed as follows:

	2020 **$**	**2019** **$**
Employee costs	**2,397**	3,891
Professional fees	**905**	1,007
Amortization of property and equipment and intangible assets	**571**	619
Restructuring costs	**571**	—
Other	**1,327**	1,288
	5,771	6,805

13.6 Research and development

The key components of research and development expenses are detailed as follows:

	2020 **$**	**2019** **$**
Employee costs	**1,985**	2,321
Professional fees	**43**	45
Amortization of property and equipment and intangible assets	**161**	165
Tax credits	**(73)**	(79)
Other	**842**	516
	2,958	2,968

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

13.7 Key management personnel compensation

The management personnel comprise members of the Board of Directors and key senior management of the Corporation and its subsidiaries. Their compensation is as follows:

	2020 $	2019 $
Salaries and short-term benefits	**1,896**	2,155
Long-term employee benefits	**231**	337
Share-based payments	**95**	92
	2,222	2,584

14. INCOME TAXES

14.1 Current income taxes

The income taxes reported in the consolidated statements of net loss and comprehensive loss stem from the accounts of the U.S. subsidiary. The reconciliation between the income tax expense [or recovery] and the income tax amount computed by applying Canadian statutory income tax rates is as follows:

	2020 %	2019 %
Income tax recovery using Canadian statutory rates	**26.5**	26.7
Change in income taxes resulting from:		
Effect of difference in foreign tax rate	**(0.8)**	3.4
Non-deductible expenses and other differences	**1.9**	(9.0)
Unrecognized tax benefits of operating losses and other deductions	**(27.5)**	(21.7)
	0.1	(0.6)

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

14.2 Deferred income taxes

The key components of the Corporation's deferred income tax asset and liability are as follows:

	2020 $		2019 $	
	Asset	**Liability**	**Asset**	**Liability**
Deferred income tax assets				
Net operating loss carry-forwards	**11,248**	**—**	9,526	—
Research and development expenditures	**2,282**	**—**	2,387	—
Capital leases	—	**(3)**	—	—
Carrying amounts of property and equipment below tax bases	—	**(573)**	—	(887)
Share issue costs and other differences	**415**	**—**	377	—
Total deferred income tax assets	**13,945**	**(576)**	12,290	(887)
Unrecognized deferred income tax assets	**(13,369)**	**—**	(11,403)	—
	576	**(576)**	887	(887)

The Corporation has accumulated net operating loss carry-forwards for federal, Québec, United States and China tax purposes, which are available to reduce future taxable income. These loss carry-forwards expire as follows:

Federal	**Québec**	**United States**	**China**	
	$	$	$	$
2026	1,760	1,705	—	—
2027	1,684	1,649	—	—
2028	4,350	4,347	—	—
2029	3,969	3,981	—	—
2030	4,789	4,801	—	—
2031	4,441	4,445	—	—
2032	4,002	4,002	2,711	—
2033	1,243	785	82	—
2034	280	—	—	—
2035	—	—	—	—
2036	2,150	2,211	—	—
2037	2,803	2,032	—	—
2038	1,595	1,612	—	151
2039	1,669	1,730	—	116
2040	4,080	4,063	451	2
	38,815	37,363	3,244	269

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

The Corporation has approximately $7,244 in scientific research and experimental development expenditures for federal tax purposes and $10,395 for Québec tax purposes available to reduce taxable income in future years and be carried forward over an unlimited period. Finally, the non-recoverable portion of federal investment tax credits may be applied against future income taxes payable. These investment tax credits expire as follows:

	$
2021	68
2022	60
2023	45
2024	91
2025	159
2026	123
2027	132
2028	118
2029	217
2030	154
2031	177
2032	188
2033	95
2034	103
2035	67
2036	124
2037	135
2038	52
2039	78
2040	74
	2,260

15. COMMITMENTS

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services. Under IFRS 16, all major leases are accounted for in the consolidated balance sheets except for short-term leases of less than 12 months and low value leases. The minimum payments for these other leases are as follows:

	$
2021	63
2022	28
2023	7
2024	7
2025	6
	111

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

16. CAPITAL MANAGEMENT

The Corporation's definition of capital includes equity, long-term debt as well as the undrawn portion of its bank credit facility.

	2020 $	2019 $
Undrawn bank credit facility *[note 8]*	**437**	375
Long-term debt	**4,000**	4,853
Equity	**14,068**	20,523
	18,505	25,751

Management's strategy and priority is preserving capital to ensure the sustainability of the business. To maximize its ongoing technology development and marketing initiatives, the Corporation does not pay any dividends.

The Corporation may use its credit facility through cash advances on credit cards.

17. FINANCIAL INSTRUMENTS

17.1 Interest rate risk

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

The Corporation is exposed to interest rate risk due to fluctuations in interest rates on cash and cash equivalents that earn interest at market rates and due to its variable interest rate on the current portion of long-term debt. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk. On an annual basis, a 1% change in interest rates would have had no impact on net loss and comprehensive loss for the year ended March 31, 2020 [$96 for the year ended March 31, 2019].

The Corporation manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations. Cash equivalents consist of money market funds and other instruments with short-term maturities.

17.2 Credit risk

The Corporation is exposed to credit losses arising from payment defaults by third parties. The Corporation evaluates the creditworthiness of its clients in order to limit the amount of credit extended, where appropriate, and establishes an allowance for expected credit losses sufficient to cover probable and reasonably estimated losses. Furthermore, the Corporation generally insures its accounts receivable balances with Export Development Canada. As of March 31, 2020, three clients accounted for 41% of total trade accounts receivable and 80% of trade accounts receivable were 90% insured [as at March 31, 2019, one client accounted for 14% of total trade accounts receivable and 54% of trade accounts receivable were 90% insured]. Historically, the Corporation has never written off a significant amount of trade accounts receivable. Outstanding trade accounts receivable over 90 days past due stood at 18% as at March 31, 2020 [6% in 2019]. As a result of the increased collectability risk, including the estimated impact of the COVID-19 pandemic, the Corporation increased its allowance for expected credit losses to $332 as at March 31, 2020 [$74 as at March 31, 2019]. Accounts receivable include investment tax credits and commodity taxes receivable, which are receivable from the government and are not exposed to significant credit risk. Cash and cash equivalents are mainly held with a limited number of Canadian chartered banks.

17.3 Foreign exchange risk

The Corporation is exposed to foreign exchange risk due to cash and cash equivalents, trade accounts receivable, deposits and accounts payable denominated in U.S. dollars. As at March 31, 2020, financial assets, consisting primarily of cash and cash equivalents, trade accounts receivable and deposits denominated in U.S. dollars, totalled $338, $3,357 and $15 respectively [$1,642, $3,624 and $199, respectively, as at March 31, 2019], and financial liabilities denominated in U.S. dollars totalled $743 [$1,018 as at March 31, 2019]. As at March 31, 2020, a 10% increase or decrease in the exchange rate between the U.S. dollar and the Canadian dollar would have had a $541 impact on net loss and comprehensive loss [$633 as at March 31, 2019].

Moreover, the Corporation uses derivative financial instruments to mitigate foreign exchange risk. The Corporation elected not to apply hedge accounting. However, the Corporation considers that those derivative instruments partially hedge the foreign exchange risk related to those transactions. As at March 31, 2020, the Corporation held foreign exchange contracts with a nominal value of US $13,374 [US $14,701 as at March 31, 2019], allowing it to sell U.S. currency at a Canadian dollar exchange rate of 1.3050 to 1.3501 [1.26 to 1.3270 as at March 31, 2019] maturing from April 2020 to March 31, 2021 [April 2019 to March 2020 in 2019].

17.4 Liquidity risk

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

As of March 31, 2020, the Corporation's financial liabilities which had contractual maturities of under one year and consisted of accounts payable and accrued liabilities, derivative financial instruments, current portion of lease liabilities and current portion of long-term debt amounting to $9,849 [$11,587 as at March 31, 2019]. Non-current contractual liabilities which include lease liabilities amounting to $1,056 [see note 10 for maturity of lease payments] and employee benefits amounting to $549 payable in fiscal 2022.

18. CONTINGENCY

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

19. SUBSEQUENT EVENTS

On June 23, 2020, the Corporation signed a term sheet with the National Bank of Canada ["NBC] related to the availability of a line of credit amounting to $4,000 for the ongoing operations and working capital of the Corporation. The 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 $4,000 was drawn at March 31, 2020.

On June 19, 2020, the Corporation also executed a letter of offer with the Business Development Bank of Canada ["BDC"] related to the availability of a working capital commercial loan of $2,000. This loan will bear interest at a variable rate, currently 4.55%, and will be payable in 24 monthly instalments of $33 from June 2021 to May 2023 and by a final payment of $1,200 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.

The signed term sheet from NBC is subject to the signing of an offer of financing and customary conditions precedent, and the executed letter of offer of the BDC is subject to customary conditions precedent. A closing is expected to take place in July 2020.