Management's Discussion and Analysis

D-BOX Technologies Inc.
Fiscal Year Ended March 31, 2020

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

This Management's Discussion and Analysis ("MD&A") is intended to provide the reader with a better understanding of the activities of D-BOX Technologies Inc. and its subsidiaries, as well as key elements of its financial results. In particular, it explains changes in the Corporation's financial position and operating results for the fiscal year ended March 31, 2020, by comparing them with the results of the previous fiscal year. It also presents a comparison of the balance sheets as at March 31, 2020 and March 31, 2019.

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. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The audited consolidated financial statements for the fiscal year ended March 31, 2020 and this MD&A have been reviewed by the Audit Committee and were approved by the Board of Directors of the Corporation on July 3, 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 as well as the closing of the financings with the National Bank of Canada and the Business Development Bank of Canada.

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; and dependence on key personnel and labour relations, as well as the closing of the financings with the National Bank of Canada and the Business Development Bank of Canada. 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.

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

With a current working capital of $6.7 million including cash on hand of $4.1 million as of March 31, 2020, an executed letter of offer for a new $2 million commercial loan with the Business Development Bank of Canada ("BDC") and a term-sheet with National Bank of Canada ("NBC") to replace the existing three-year secured revolving credit facility with the NBC by a $4 million line of credit, the Corporation believes that it has sufficient liquidity to meet its currently anticipated needs for the next twelve months based on current and anticipated market conditions and management's projections. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic.

There continues to be uncertainty regarding the duration and magnitude of the COVID-19 pandemic and the possibility of a recurrence, making it impossible to forecast the impact on the Corporation's business and operations, both in the short term and in the long term. We are continuing to monitor the impact of COVID-19 on our business, financial condition and operations. Refer to the section of the Annual Information Form entitled "Risk Factors" for a discussion about the risks associated with the COVID-19 pandemic.

4. MESSAGE TO SHAREHOLDERS

Message from the Chairman of the Board

Dear fellow Shareholders,

Let us all recognize that the year just ended was difficult for shareholders. In last year's message, I had reflected on the challenges and the opportunities before us. But never could we have foreseen such a difficult period in terms of business environment, generalized lack of interest in public small/micro-cap companies, and lately the unprecedented crisis resulting from the COVID-19 pandemic which affected our key markets (theatrical and commercial entertainment).

I am very pleased and proud of D-BOX's quick reaction and agility: a tremendous job was done maintaining health safety, preserving liquidity, strengthening business relationships and transforming the strategy with limited resources. While the COVID-19 has seriously impacted the company's activities, I am confident that it is only a temporary setback that will be overcome.

I am pleased to welcome Sébastien Mailhot as our new CEO. His clear vision, his passion for the business and his in-depth knowledge of the organization are great assets for a quick transition. We had started to see his imprint in late calendar 2019 with a plan to profitable growth. He has started to transform the business by reassessing strategies, market focus, processes and structure. The consumer market in areas such as racing simulation, gaming and general at-home entertainment will be playing a key role in the future. D-BOX possesses the critical ingredients for long term value creation: a powerful technology, strong intellectual property protection, an innovative and resilient team, and a clear game plan.

As announced already, I am pleased to welcome Luc Martin and Denis Chamberland to the board; both bring senior level executive experience and are directors of companies in the financial, gaming, entertainment and consumer industries.

In January, we announced that Claude Mc Master would be retiring as planned on March 31st remaining for a while in a strategic advisory role to the new CEO. I want to thank Claude for growing a company that is now a leader in its field. The constant investments in R&D which he always supported will also enable the company to start penetrating the at-home entertainment market in the not too distant future.

I also wish to thank Gary Collins for his contribution over his five years on the board. He always brought a very thoughtful contribution to our discussions. We wish him well and he will remain a good friend of the organization.

In addition, I want to thank my fellow board members for their dedication, employees for their enthusiasm and resilience, as well as shareholders and financial partners for their support, especially in recent months.

I had stepped in as Chairman after the passing of my predecessor in an effort to help the company in time of need. Having now successfully made the transition to a new CEO, I will be stepping down from the board at the next shareholder's meeting, leaving younger directors with appropriate industry experience to steer the company forward with the new team.

In closing, we have to recognize that the road has been bumpy, and that it will stay that way for a while given the economic context. But the board remains confident that the company has a sound strategy to get through this difficult period, and more importantly for the long run, which should be to the benefit of patient investors.

Thank you,

Signed:

Jean-René Halde
Chairman of the Board

Message from the President and Chief Executive Officer

Dear fellow Shareholders,

Starting at the helm of a company during the peak of a crisis like the COVID-19 pandemic is not easy. But tough times force all of us to take a step back, think, return to our core values… and bounce back! In these unusual times, it is important to be authentic and communicate as clearly as possible between us, and with all partners.

I embrace this new challenge, with the endorsement of the board, my management team, D-BOX employees, and our trusted commercial partners. I am confident D-BOX is strategically positioned for future growth as we adapt and transform the business.

The Transformation takes form

Firstly, I have started working on core strategic initiatives with the management team. We reviewed the strategic business plan, in which we selected new priority growth markets, we reshaped the organizational reporting and cost structures and we accelerated the focus towards partnership and profitable growth. All of this while managing the impact of the COVID-19 crisis.

Since it was founded, D-BOX has had to overcome various crisis periods such as the technology bubble in 2000, the financial crisis in 2008, and now the COVID-19 pandemic. While this is an unprecedented period in the global economy, it requires organizations to transform their business and act quickly. The employees at D-BOX have responded remarkably and rapidly to this climate, and I'm proud of them.

Diversification and segmentation - the heart of the strategy

Since 2009, our market leadership in theatrical and other business segments has allowed D-BOX to build an international brand. While theatrical remains a key market, D-BOX realized years ago the importance of reacting swiftly to the changing market dynamics by diversifying its portfolio in other segments. These new segments now represents approximately 50% of total revenue. We are now strategically well-positioned in many business segments.

I strongly believe D-BOX's technology platform and expertise is our best kept secret. Professional simulation, movies, arcade, VR, home entertainment, gaming, racing simulation and other business segments are looking to bring a sense of feeling and emotion to human experience, either from an immersive or a reality point of view: this is what D-BOX has been building step by step for many years. The potential of D-BOX's technology platform and expertise will benefit from the acceleration of home entertainment solutions and more broadly by the market acceptance for haptic technology (i.e. technology that creates an immersive experience by providing feedback to the whole body). The haptic market is going mainstream with the addressable market projected at $38B[1] by 2028 and growing at 14.4% CAGR. The growth will be driven by the rising adoption in consumer electronic devices in gaming, at-home entertainment and virtual reality amongst others. Our technological transformation and the power of our ecosystem will allow us to be an important player and address those opportunities.

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[1] "Global Haptic Technology Market Forecast 2020-2028"; https://www.inkwoodresearch.com/reports/haptic-technology-market/

The legacy: a tradition of growth

I would like to thank Claude Mc Master who hired me almost 5 years ago. A long time ago, he inherited a company with little capital and no revenue. His dreams and passion enabled him to develop new markets, develop state of the art haptic technology, create brand awareness and position D-BOX as a global leader. I wish him well for his new endeavours.

I would like as well to thank Jean-René Halde and other board members for their contribution to the business as well as the opportunity to become CEO. Also, I would like to thank the tremendous and resilient D-BOX workforce: I know they are there for the right reasons and have at heart the financial success of the company. I'll work hard for the benefit of all stakeholders.

With the management team, I am committed to the implementation of our business plan, keeping in mind the benefits for all partners, shareholders and members of our board, who have afforded me their trust.

Beyond the uncertain economy brought by the COVID-19 crisis, the opportunities for D-BOX are infinite. D-BOX's solid strategic positioning lies on the strength of 20 years of innovation, as well as a vast commercial and content ecosystem. D-BOX is now commercially ready to gain more awareness, to penetrate new markets such as the home entertainment market and unlock the value for shareholders.

Thank you,

Signed:

Sébastien Mailhot
President and CEO

5. FINANCIAL AND BUSINESS HIGHLIGHTS

COVID-19 Financial Impact

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

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

5.1 Financial Highlights

Highlights for the Year Ended March 31, 2020

Compared with the year ended March 31, 2019:

- Revenues decreased from $34.2 million to $25.9 million.
- Recurring revenues decreased from $8.6 million to $7.3 million.
- Net loss increased from $1.7 million to $6.3 million.
- Net loss for this year includes $1.4 million of restructuring costs to reflect the change of the organizational structure and $1.3 million of impairment charges.
- Adjusted EBITDA* decreased from $2.1 million to $0.6 million.

Highlights for the Fourth Quarter Ended March 31, 2020

Compared with the fourth quarter ended March 31, 2019:

- Revenues decreased from $8.3 million to $6.6 million.
- Recurring revenues decreased from $1.8 million to $1.3 million.
- Net loss increased from $0.6 million to $3.1 million.
- Net loss for this quarter includes $0.4 million of restructuring costs and $1.3 million of impairment charges.
- Quarterly Adjusted EBITDA* amounted to $7 thousand compared with $0.3 million.

Fiscal Year and Fourth Quarter Ended March 31 (in thousands of dollars, except per share data)				
	Fiscal Year		Fourth Quarter	
	2020	2019	2020	2019
Revenues	**25,895**	34,164	**6,560**	8,309
Net loss	**(6,250)**	(1,705)	**(3,096)**	(551)
Adjusted EBITDA*	**612**	2,062	**7**	267
Basic and diluted net loss per share	**(0.036)**	(0.010)	**(0.019)**	(0.003)
Information from the consolidated balance sheets				
	As at March 31, 2020		**As at March 31, 2019**	
Cash and cash equivalents	**4,116**		**9,635**	

* See the "Non IFRS Measures" section on page 11 and the table reconciling adjusted EBITDA* to net loss on page 17.

- On June 23, 2020, the Corporation signed a term sheet with the National Bank of Canada related to the availability of a line of credit amounting to $4 million for the ongoing operations and working capital of the Corporation. This line of credit will replace the actual three-year secured revolving credit facility from which an amount of $4 million was drawn at March 31, 2020 [see Subsequent events on page 25].

- On June 19, 2020, the Corporation also executed a letter of offer with the Business Development Bank of Canada related to the availability of a working capital commercial loan of $2 million [see Subsequent events on page 25].

5.2 Operational Highlights for the Fourth Quarter Ended March 31, 2020

- On March 11, 2020, the World Health Organization made the assessment that COVID-19 can be characterized as a pandemic. The international response to COVID-19 has led to significant restrictions on travel, temporary business closures, operating, supply chain and project development delays and disruptions, quarantines and a general reduction in consumer activity, globally. While these measures are expected to be temporary, the duration of the business disruptions internationally and related financial impact will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken by governments and other regulators in each jurisdiction to contain or treat the COVID-19 pandemic.

  In the wake of the COVID-19 pandemic fallout, its impact on the Corporation's business, and government health and safety orders, D-BOX proceeded with the temporary layoff of a significant portion of its workforce and a reduction of the compensation and hours of the remaining workforce. The local and national governments' response to the COVID-19 pandemic has led to a mandatory temporary shutdown of D-BOX's headquarters located in Canada, as well as its offices in California and Beijing (China), gave rise to a significant reduction of the demand for D-BOX's products, caused potential sales and scheduled installations to be delayed or cancelled, and resulted in royalties and maintenance service fees from the theatrical market being suspended due to the temporary closure of entertainment venues around the world.

- In the professional simulation segment, CM Labs, the leading vendor for simulation-based training in the construction industry with over 1,000 simulators in 30 countries, has developed a new simulator. This simulator, which integrates D-BOX's motion technology, is adapted for the training of heavy equipment operators.

- In the themed entertainment segment, BRP Inc., a global leader in powersport vehicles and marine products, has developed a Ski-Doo simulator with D-BOX's motion technology to replicate an immersive experience.

- In the theatrical segment, D-BOX expanded its footprint with the additions from Premiere Cinemas (USA), Traumpalast (Germany) and Golden Screen Cinemas (Malaysia).

6. OUTLOOK

Fiscal 2020 has been a challenging year as a result of a slowdown in activities from certain partners facing internal and market challenges, and lately the disruption caused by the COVID-19 pandemic. The adverse impact of COVID-19 on the Corporation began in the fourth quarter of fiscal year 2020, and the financial effect was aggravated in the first quarter of fiscal 2021 and will most likely continue in the second quarter. While there are encouraging news with some entertainment venues already reopened and planning to reopen, the uncertainty related to the magnitude and duration of COVID-19 pandemic could impact the financial performance of the Corporation in future reporting periods.

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

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

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

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

7. CORPORATE PROFILE

D-BOX is redefining the entertainment experience. We create hyper-realistic, immersive entertainment experiences by moving the body and sparking the imagination through motion. The Corporation's expertise and proprietary technology allows us to collaborate with some of the largest companies in the world to deliver new ways to tell great stories. Whether for movies, video games, virtual reality applications, themed entertainment or professional simulation, D-BOX's mission is to move the world.

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

1. D-BOX Motion Code, which programs motion effects frame-by-frame based on visual content.

2. A motion controller serving as an interface between the visual content (films, video games, simulation and training, virtual reality experiences) and the D-BOX motion system.

3. The D-BOX motion system, consisting of proprietary electromechanical actuators built into a platform, seat, or other type of equipment.

As at March 31, 2020, D-BOX had 126 employees compared with 138 employees at March 31, 2019.

8. CORPORATE STRATEGY

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

Examples of Application	
Entertainment Market	**Simulation and Training Market**
Theatrical Entertainment *Commercial Entertainment:* ▪ Amusement parks ▪ Arcades ▪ Museums and planetariums *Home Entertainment* ▪ Video game ▪ Home theatre ▪ Consumer entertainment	*Simulation and training for:* ▪ Automotive ▪ Flight ▪ Heavy equipment/cranes ▪ Racing ▪ Wellness
Virtual reality for both the Entertainment and the Simulation and Training markets	

8.1 Revenue Models

The Corporation's revenue streams consist primarily of:

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

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

3. Sales of actuators to resellers, integrators, and equipment or seating manufacturers who incorporate and market the D-BOX technology under their own brands (known as original equipment manufacturers or OEMs).

8.2 Entertainment Market

Theatrical Entertainment

D-BOX offers its products and services to the theatrical market directly and through partners. There were 195,282 cinema screens[2] globally in 2019.

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

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

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

As of March 31, 2020, the number of total screens installed or in backlog grew 2% to 761 compared with 747 a year earlier. Fifty exhibitors had more than one location that integrated the D-BOX motion system and 213 locations had

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

more than one screen incorporating our technology within the same complex. The Corporation defines system backlog as follows: a D-BOX motion system commitment or order received as part of a contractual agreement with an installation scheduled within a 24-month period.

Commercial and High-End Home Entertainment

The commercial entertainment segments include projects related to theme parks, arcades, museums and planetariums. In recent years, the growth of family entertainment centres, a sub-segment of the amusement park market, has helped fuel the growth of the commercial entertainment segment. D-BOX offers its products and services through channel partners including OEMs, integrators and value-added resellers.

The Corporation's business strategy to increase sales in the commercial entertainment market is as follows:

1. Increase the number of partnerships, including OEMs, integrators and value-added resellers;
2. Increase the revenue per partner;
3. Find new sectors for our technology; and
4. Develop new products.

8.3 Simulation and Training Market

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

The Corporation's business strategies to increase sales in the Simulation and Training Market are as follows:

1. Increase the number of partnerships, including OEMs, integrators and value-added resellers;
2. Increase the revenue per partner;
3. Find new sectors for our technology; and
4. Develop new products.

9. NON-IFRS MEASURES

In this MD&A, the Corporation uses two measures that are non-compliant with International Financial Reporting Standards (IFRS): (1) Adjusted EBITDA; and (2) Gross profit excluding amortization. Although these measures supply useful and complementary information, they do not have a standardized meaning under IFRS and are not likely to be comparable to similar measures used by other issuers.

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 14).

10. MAIN FINANCIAL DATA

The following tables show selected significant financial information for the current fiscal year and fourth quarter ended March 31, 2020 compared with the corresponding period of the previous fiscal year:

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

Information from the Consolidated Statements of Net Loss and Comprehensive Loss	Fiscal year ended March 31		Fourth quarter ended March 31	
	2020	2019	2020	2019
Revenues	**25,895**	34,164	**6,560**	8,309
Gross profit excluding amortization*	**15,843**	20,576	**3,715**	5,048
Net loss	**(6,250)**	(1,705)	**(3,096)**	(551)
Adjusted EBITDA*	**612**	2,062	**7**	267
Basic and diluted net loss per share	**(0.036)**	(0.010)	**(0.019)**	(0.003)

* See the "Non-IFRS Measures" section on page 11.

Information from the Consolidated Statements of Cash Flows	Fiscal year ended March 31	
	2020	2019
Cash flows (used in) provided by operating activities	**(3,022)**	411
Goods held for lease	**(308)**	(88)
Additions to property and equipment	**(474)**	(395)
Additions to intangible assets	**(819)**	(714)

The following table shows certain selected significant financial information from the consolidated balance sheets as at March 31, 2020 and March 31, 2019:

(Amounts are in thousands of Canadian dollars).

Information from the Consolidated Balance Sheets	As at March 31, 2020	As at March 31, 2019
Cash and cash equivalents	**4,116**	9,635
Inventories	**6,531**	7,526
Working capital	**6,695**	12,126
Total assets	**26,871**	33,764
Total current liabilities	**10,916**	12,403
Total liabilities	**12,521**	13,241
Equity	**14,350**	20,523

11. Operating Results

11.1 Revenues

Revenues for the fiscal year ended March 31, 2020 fell 24% to $25.9 million compared with $34.2 million for the year ended March 31, 2019.

For the entertainment market, revenues consist of D-BOX motion system sales to commercial theatre operators, revenues from rights for use, rental and maintenance with respect to admission tickets sold in commercial theatres, system sales to commercial entertainment clients and system sales to home entertainment customers.

During the fiscal year ended March 31, 2020, the entertainment market revenues decreased 32% to $17.6 million compared with $26.0 million for fiscal 2019. Revenues from commercial theatres decreased 20% from $16.4 million in 2019 to $13.1 million for 2020. This decrease is mainly due to a slowdown in activities from certain partners facing internal and market challenges, and lately the disruption caused by the impact of COVID-19. These revenues consisted of: (i) D-BOX motion systems sales, down 26% to $5.8 million in 2020 ($7.8 million in 2019) (ii) the revenues from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 15% to $7.3 million in 2020 ($8.6 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.
- Individual performance of exhibitors.
- The average number of D-BOX motion systems deployed.
- The number of weekly screenings of a D-BOX movie, which can vary by country and exhibitor.
- The number of weeks a movie screens, which vary by country due to different launch dates or exhibitor decisions to extend or shorten the exhibition window.

The entertainment market also includes system sales for commercial entertainment and home entertainment. Commercial entertainment systems sales amounted to $3.8 million for 2020 down 57% from $8.7 million last year on both new and existing-client sales. This decrease is due to a longer sales cycle for certain clients this year compared to last year. Home entertainment revenues decreased 19% to $0.7 million for fiscal 2020 from $0.9 million last year.

Revenues also include motion system sales to customers in the simulation and training market who sell D-BOX motion systems under their own brand names. Motion system sales in the simulation and training market were up 2% to $8.3 million for the fiscal year ended March 31, 2020 from $8.1 million last year. Sales growth was mainly driven by simulation and training systems sold to customers in automotive, racing simulation and gaming sub-markets.

For the fourth quarter of 2020, revenues decreased 21% to $6.6 million compared with $8.3 million for the corresponding period last year. Revenues from the entertainment market were negatively impacted by the COVID-19 pandemic, decreasing 23% to $4.4 million for the fourth quarter 2020 compared with $5.7 million for the same quarter last year. Theatrical entertainment systems sales increased 67% to $1.7 million for the fourth quarter ($999 thousand for the same quarter last year) and rights for use, rental and maintenance decreased 31% to $1.3 million from $1.8 million for the fourth quarter last year. Commercial entertainment system sales decreased 53% from $2.8 million to $1.3 million due to a longer sales cycle for certain clients this year compared to last year.

Simulation and training market sales were down 16% to $2.2 million for the fourth quarter of 2020 compared with $2.6 million last year.

11.2 Gross Profit

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

(Amounts are in thousands of Canadian dollars)

	Fiscal year ended March 31		Fourth quarter ended March 31	
	2020	**2019**	**2020**	**2019**
Revenues	**25,895**	34,164	**6,560**	8,309
Gross profit	**13,937**	18,740	**3,170**	4,620
Amortization related to cost of goods sold	**1,906**	1,836	**545**	428
Gross profit excluding amortization*	**15,843**	20,576	**3,715**	5,048
Gross margin excluding amortization	**61%**	60%	**57%**	61%

See the "Non-IFRS Measures" section on page 11.

For the fiscal year ended March 31, 2020, gross profit amounted to $13.9 million (54% of revenues) down 26% from $18.7 million (55% of revenues) for 2019. Excluding amortization related to cost of goods sold, gross profit amounted to $15.8 million (61% of revenues) in 2020 down 23% from $20.6 million (60% of revenues) last year.

For the fourth quarter ended March 31, 2020, gross profit decreased 31% to $3.2 million from $4.6 million for the same period year over year. Excluding amortization related to cost of goods sold, gross profit decreased 26% to $3.7 million for the fourth quarter ended March 31, 2020 (57% of revenues) from $5.0 million (61% of revenues) for the corresponding period last year. The lower gross margin is explained by the product mix which carried lower margin and was adversely impacted by the temporary closure of theatres chains around the world.

11.3 Operating Expenses

Restructuring Costs: During the year, the Corporation restructured its operations resulting in restructuring costs of $1.4 million of which $0.8 million was accounted for in selling and marketing and $0.6 million in administration. For the fourth quarter, the restructuring costs amounted to $0.4 million and was accounted for in sales and marketing.

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 fiscal year ended March 31, 2020, selling and marketing expenses amounted to $9.0 million, representing 35% of revenues, and were down 8% compared with $9.8 million last year (29% of revenues).

For the fourth quarter ended March 31, 2020, selling and marketing expenses decreased by 16% to $2.0 million (31% of revenues) compared with $2.4 million (29% of revenues) last year.

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

For the fiscal year ended March 31, 2020, administration expenses decreased by 15% to $5.8 million (22% of revenues) compared with $6.8 million (20% of revenues) last year.

For the fourth quarter ended March 31, 2020, administration expenses decreased by 22% to $1.4 million (22% of revenues) from$1.8 million (22% of revenues) for the same period last year.

Research and Development: Research and development expenses mainly include costs related to employees, amortization of property and equipment and intangible assets, other costs associated with enhancements to existing products, and the cost of adapting products to various international standards, less investment tax credits.

For the fiscal year ended March 31, 2020, research and development expenses remained at $3.0 million, representing 12% of revenues (11% of revenues last year).

For the fourth quarter ended March 31, 2020, research and development expenses increased by 19% to $0.9 million (14% of revenues) from $0.8 million (9% of revenues) for the same period last year.

Foreign Exchange Loss: Foreign exchange loss results primarily from the fluctuation of the Canadian dollar relative to the U.S. currency when translating U.S. dollar operations at the prevailing rate on the date of a transaction and the translation of U.S. dollar monetary assets and liabilities at the end-of-period rate.

For the fiscal year ended March 31, 2020, foreign exchange loss amounted $0.6 million compared with a loss of $0.3 million for the previous year.

For the fourth quarter ended March 31, 2020, foreign exchange loss amounted to $0.5 million compared with a loss of $40 thousand for the corresponding period last year.

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

11.4 Financial Expenses

For the fiscal year ended March 31, 2020, financial expenses net of interest received remained unchanged at $0.5 million compared to last year.

For the fourth quarter ended March 31, 2020, financial expenses net of interest income amounted to $78 thousand compared with $145 thousand for the same period of the previous year.

11.5 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.

11.6 Net Loss

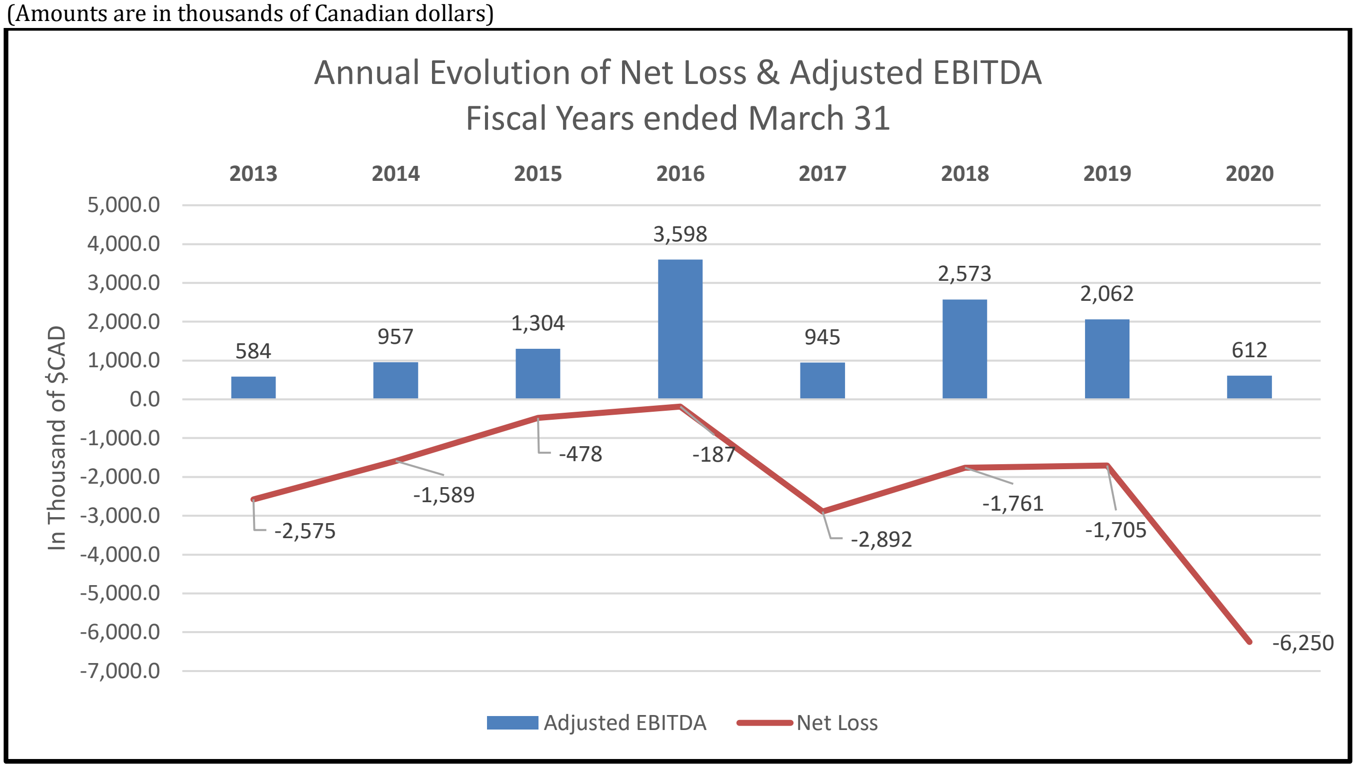
For the fiscal year ended March 31, 2020, net loss amounted to $6.3 million (basic and diluted net loss of $0.036 per share) compared with a net loss of $1.7 million (basic and diluted net loss of $0.010 per share) last year.

Net loss for the fourth quarter ended March 31, 2020, amounted to $3.1 million (basic and diluted net loss of $0.019 per share) compared with a net loss of $0.6 million (basic and diluted net loss of $0.003 per share) for the same period last year.

12. ADJUSTED EBITDA*

The following table reconciles adjusted EBITDA to net loss:

(Amounts are in thousands of Canadian dollars)



* See the "Non-IFRS Measures" section on page 11.

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

For the fiscal year ended March 31, 2020, adjusted EBITDA amounted to a $0.6 million compared with $2.1 million last year.

For the fourth quarter ended March 31, 2020, adjusted EBITDA amounted to $7 thousand compared with $0.3 million income for the same period last year.

The following table reconciles adjusted EBITDA to net loss (amounts are in thousands of Canadian dollars):

(Amounts are in thousands of Canadian dollars)

	Fiscal year ended March 31		Fourth quarter ended March 31	
	2020	2019	**2020**	2019
Net loss	**(6,250)**	(1,705)	**(3,096)**	(551)
Amortization of property and equipment	**1,914**	1,934	**523**	422
Amortization of intangible assets	**905**	800	**241**	198
Amortization of other assets	**2**	3	**—**	1
Impairment of property and equipment	**765**	—	**765**	—
Impairment of intangible assets	**508**	—	**508**	—
Impairment of finance lease receivable	**52**	—	**52**	—
Financial expenses (income)	**545**	529	**78**	145
Income taxes (recovery)	**8**	10	**9**	(36)
Share-based payments	**155**	157	**39**	48
Foreign exchange loss	**605**	334	**488**	40
Restructuring costs	**1,403**	—	**400**	—
Adjusted EBITDA	**612**	2,062	**7**	267

* See the "Non-IFRS measure" section on page 11.

13. Liquidity, Capital Resources and Financing Sources

As at March 31, 2020, current assets amounted to $17.6 million compared with $24.5 million as at March 31, 2019.

Total working capital decreased to $6.7 million as at March 31, 2020, compared with $12.1 million as at March 31, 2019, mainly due to the decrease of $5.5 million in cash and cash equivalents to $4.1 million. Accounts receivable, consisting primarily of trade accounts receivable, investment tax credits and commodity taxes receivable, amounted to $6.5 million, the same amount as last year. Inventories decreased 5% to $6.5 million as at March 31, 2020, compared with $7.5 million as at March 31, 2019.

Current liabilities decreased to $10.9 million as at March 31, 2020, from $12.4 million as at March 31, 2019. Accounts payable and accrued liabilities, included in current liabilities, decreased by 28% to $4.7 million as at March 31, 2020 from $6.6 million as at March 31, 2019. Current portion of long-term debt included in current liabilities totalled $4 million in 2020 compared with $4.9 million in 2019. Following the adoption of *IFRS-16-Leases* on April 1, 2019, the current portion of lease liabilities as at March 31, 2020 amounted to $0.3 million.

13.1 Operating Activities

For the fiscal year ended March 31, 2020, cash flows used in operating activities totalled $3.0 million compared with cash flows provided by operations of $0.4 million for the previous year. This $3.4 million variance in cash flows related to operating activities is mainly the result of cash used in operations excluding changes in working capital items of $1.3 million this year compared with $1.8 million in cash flows provided last year.

13.2 Investing Activities

For the fiscal year ended March 31, 2020, cash flows used in investing activities amounted to $1.3 million compared with $1.1 million last year.

13.3 Financing Activities

For the fiscal year ended March 31, 2020, cash flows used in financing activities amounted to $1.3 million. There were no financing activities during the previous year. During the year, repayment of long-term debt amounted to $5.0 million and payment of lease liabilities amounted to $0.3 million. Also during the year, proceeds from long-term debt amounted to $4.0 million.

As of March 31, 2020, the effective interest rate of long-term debt was 6.2%. Subsequent to year-end, the Corporation replaced the existing credit facility [see subsequent events, section 22, page 25] and received a waiver to be in compliance with all debt covenants as at March 31, 2020. Considering the default in the Corporation's financial ratio conditions at year-end and the following quarter, the whole long-term debt was presented in current liabilities.

For the fiscal year ended March 31, 2020, interest expense on long-term debt charged to loss amounted to $0.4 million compared with $0.5 million in 2019. These amounts include $147 thousand related to accretion of interest expense in 2020 compared with $160 thousand in 2019.

13.4 Equity

Equity decreased $6.1 million to $14.4 million as at March 31, 2020, from $20.5 million as at March 31, 2019. The decrease resulted mainly from the $6.3 million net loss for the fiscal year ended March 31, 2020.

14. 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)

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues from the entertainment market								
Theatrical entertainment: System sales	**1,669**	582	1,782	1,741	999	1,896	2,688	2,197
Rights for use, rental and maintenance	**1,269**	1,821	1,811	2,434	1,831	2,073	2,102	2,605
	2,938	2,403	3,593	4,175	2,830	3,969	4,790	4,802
Commercial entertainment system sales	**1,300**	746	724	995	2,758	2,139	1,312	2,512
Home entertainment system sales	**159**	264	174	147	152	145	365	253
Total revenues from the entertainment market	**4,397**	3,413	4,491	5,317	5,740	6,253	6,467	7,567
Revenues from the simulation and training market	**2,163**	2,060	1,838	2,216	2,569	2,004	1,619	1,945
TOTAL REVENUES	**6,560**	5,473	6,329	7,533	8,309	8,257	8,086	9,512
Adjusted EBITDA*	**7**	276	114	215	267	511	127	1,157
Net loss	**(3,096)**	(1,615)	(933)	(606)	(551)	(177)	(748)	(229)
Basic and diluted net loss per share	**(0.019)**	(0.008)	(0.006)	(0.003)	(0.003)	(0.001)	(0.005)	(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 11 and the table reconciling adjusted EBITDA to net loss on page 17.

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:

(Amounts are in thousands of Canadian dollars)

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

16. FULLY DILUTED SHARE CAPITAL (JULY 3, 2020)

	Class A common shares
Class A common shares outstanding	175,950,573
Convertible instruments	
Stock-options outstanding	14,213,289
Warrants	2,000,000
	192,163,862

17. NEW ACCOUNTING STANDARD

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 only 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.

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 effective 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.

(amounts are in thousands of Canadian dollars):

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 (amounts are in thousands of Canadian dollars):

	$
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

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.

18. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Significant Judgements and Estimates

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

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 layoff 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 as well as impairments of property and equipment and intangible assets.

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 retains 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.

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.

For further information, see note 2.3 "Significant judgments and estimates" of the Corporation's audited consolidated financial statements for the fiscal year ended March 31, 2020.

19. FINANCIAL INSTRUMENTS

Interest Rate Risk

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

The Corporation is exposed to interest rate risk due to fluctuations in interest rates on cash and cash equivalents that earn interest at market rates and 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 thousand 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.

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 of 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 thousand as at March 31, 2020 [$74 thousand 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 contracted with a limited number of Canadian chartered banks

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 thousand, $3.4 million, and $15 thousand, respectively [$1.6 million, $3.6 million and $199 thousand, respectively as at March 31, 2019] and financial liabilities denominated in U.S. dollars totalled $743 thousand [$1 million 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 thousand impact on net loss and comprehensive loss [$633 thousand 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 $13.4 million [US $14.7 million 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].

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 $9.8 million [$11.6 million as at March 31, 2019]. Non-current contractual liabilities which include lease liabilities amounting to $1.1 million [refer to note 10 of the Corporation's audited consolidated financial statements for maturity lease payments] and employee benefits amounting to $0.5 million payable in 2022.

Our ability to raise capital is subject to certain risks and uncertainties [see the 'Risks and uncertainties' on page 25].

20. 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.

21. 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.

22. 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 million 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 million 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 million. This loan will bear interest at a variable rate, currently 4.55%, and will be payable in 24 monthly instalments of $33 thousand from June 2021 to May 2023 and by a final payment of $1.2 million in June 2023. The loan will be secured by second-ranking hypothec and security interests on all assets of the Corporation and its U.S. subsidiary.

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.

23. Disclosure Controls and Internal Control Over Financial Reporting

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. The President and Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures and concluded, based on their evaluation, that such disclosure controls and procedures were effective as of March 31, 2020.

Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Corporation's internal control over financial reporting.

The Corporation has been working to implement procedures and internal controls with the support of an external consultant in connection with the implementation of International Financial Reporting Standard 16 (IFRS 16). In the course of such implementation, 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. The impacts on the audited consolidated financial statements for the fiscal year ended March 31, 2020 are an increase in sales of $513K, an increase of the gross profit of $334K and an increase of the assets in the amount of $461K. Such weakness has been corrected and management will implement an additional measure of analysis of effective controls over the accounting of non-routine complex transactions related to lease agreements, which are highly exceptional in relation to the general activities and affairs of the Corporation.

Subject to the foregoing, they concluded, based on their evaluation, that such internal control over financial reporting was effective as of March 31, 2020.

Finally, there has been no change in the Corporation's internal control during the financial period beginning January 1, 2020 and ending March 31, 2020 that materially affected, or is likely to materially affect, the Corporation's internal control over financial reporting.

24. Continuous Information and Additional Disclosure

This MD&A was prepared as at July 3, 2020. Additional information can be found on the SEDAR website at www.sedar.com.

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