Management's Discussion and Analysis

D-BOX Technologies Inc.
Fiscal Year Ended March 31, 2021

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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, 2021, by comparing them to the results of the corresponding periods of the previous fiscal year. It also presents a comparison of the balance sheets as at March 31, 2021 and March 31, 2020.

This MD&A has been prepared in accordance with National Instrument 51-102, *Continuous Disclosure Obligations,* and should be read in conjunction with the information included in the audited consolidated financial statements for the fiscal year ended March 31, 2021 and accompanying notes. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The annual audited consolidated financial statements for the fiscal year ended March 31, 2021 and this MD&A have been reviewed by the Audit Committee, and approved by the Board of Directors of the Corporation on June 7, 2021. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

2. FORWARD-LOOKING STATEMENTS

Certain information included in this MD&A may constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information may include, among others, statements regarding the future plans, activities, objectives, operations, strategy, business outlook, and financial performance and condition of the Corporation, or the assumptions underlying any of the foregoing. In this MD&A, words such as "may", "would", "could", "will", "likely", "believe", "expect", "anticipate", "intend", "plan", "estimate" and similar words and the negative form thereof are used to identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at or by which, such future performance will be achieved. Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on several assumptions which give rise to the possibility that actual results could differ materially from the Corporation's expectations expressed in or implied by such forward-looking information and no assurance can be given that any events anticipated by the forward-looking information will transpire or occur, including but not limited to the future plans, activities, objectives, operations, strategy, business outlook and financial performance and condition of the Corporation.

Forward-looking information is provided in this MD&A for the purpose of giving information about Management's current expectations and plans and allowing investors and others to get a better understanding of the Corporation's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information provided in this MD&A is based on information available at the date hereof and/or management's good-faith belief with respect to future events and are subject to known or unknown risks, uncertainties, assumptions and other unpredictable factors, many of which are beyond the Corporation's control.

The risks, uncertainties and assumptions that could cause actual results to differ materially from the Corporation's expectations expressed in or implied by the forward-looking information include, but are not limited to: future funding requirements; indebtedness; COVID-19 and similar global health crises; political, social and economic conditions; strategic alliances; access to content; performance of content; distribution network; dependence on suppliers; manufacturing costs; concentration of clients; competition; technology standardization; exchange rate between the Canadian dollar and the U.S. dollar; warranty, recalls and lawsuits; intellectual property; security and management of information; credit risk; reputational risk through social media; and dependence on key personnel and labour relations. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking information are discussed under "Risk Factors" in the Corporation's annual information form for the fiscal year ended March 31, 2021, 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 the annual information form 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

The COVID-19 pandemic has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the pandemic continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The Corporation's business, operations and financial condition were materially adversely affected by the COVID-19 pandemic during the fiscal year ended March 31, 2021. As conditions surrounding the pandemic continue to evolve, the Corporation may experience further unexpected negative impacts from the COVID-19 pandemic in the future. Such impacts could continue to include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could continue to include other increased government regulations, a material reduction in demand for the Corporation's products, reduced sales, higher costs for new capital, licensing delays, increased operating expenses, delayed performance of contractual obligations, product shipping delays, and potential supply and staff shortages, all of which would be expected to negatively impact the business, financial condition and results of operations of the Corporation and its ability to satisfy its obligations. The risks to the Corporation of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Corporation's facilities or a supplier's facilities. Should an employee or visitor in any of the Corporation's facilities or a supplier's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Corporation's workforce at risk.

Although the Corporation is now increasingly focusing on the fast-growing home entertainment market, the theatrical market still represents a material source of revenue for the Corporation. The outbreak of the COVID-19 pandemic and the government-imposed restrictions and mandated closures of nonessential businesses in response thereto has had an unprecedented impact on the commercial entertainment market. While restrictions to control the spread of COVID-19 were applied at different degrees depending on the countries and regions since March 2020, most commercial entertainment venues operated at limited capacity and, in the case of the theatrical market, a significant number of commercial theatres were temporarily closed and those which reopened have been constrained with social distancing rules and local government business restrictions. Consequently, a significant number of blockbuster movies have been postponed to a later date, thereby adversely affecting the demand for the Corporation's products, activities, revenues, profitability, financial condition, results of operations and the trading price of its securities. While the market environment could still change, it is important to note that movie studios have resumed releasing high budget movies since April 2021, and several such movies are scheduled to be released over the summer 2021.

While there are encouraging news in recent months about the global vaccination rollout and gradual reopening of entertainment venues around the world, the full impact of the COVID-19 pandemic cannot be quantified at this time because of the significant uncertainty around the timing of the reductions of government-imposed restrictions and mandated closures of nonessential businesses, and the potential long-term effects that COVID-19 may have on commercial entertainment venues. The Corporation cannot predict when these restrictions will be completely lifted or how quickly (i) the businesses of commercial theatres and other venues will be permitted to fully resume operations and (ii) guests will return to commercial theatres and other venues once operations have resumed. The theatrical market may also be impacted by the lack of availability of films in the short or long-term, including as a result of (i) continued delay in film releases, (ii) release of scheduled films on alternative channels or (iii) disruptions or suspensions of film production, which may result in a material adverse effect on the Corporation's business, financial condition, results of operations and the trading price of its securities.

The Corporation continues to actively monitor all aspects of its business and operations in order to minimize the impact of COVID-19 on its operations wherever possible. However, the outbreak of COVID-19 has caused significant disruptions to the Corporation's ability to generate profitability and cash flows. While the Corporation is cautiously optimistic that the exhibition, amusement and leisure industries will gradually recover over time, the ongoing COVID-19 pandemic and the events and circumstances resulting from the COVID-19 pandemic could have a material negative impact on its business, financial condition and results of operations for upcoming quarters of its fiscal year ending March 31, 2022 and potentially through the end of such fiscal year, as compared to pre-COVID-19 financial results for the same periods.

4. MESSAGE TO SHAREHOLDERS

Message from the Chair of the Board

Dear fellow shareholders,

It is my privilege to address you today as the Chair of the Board of Directors of D-BOX Technologies Inc. Since I joined D-BOX's Board in February 2020 and named Chair of the Board of Directors in September 2020, I have witnessed D-BOX's unique opportunity to lead in the haptic technology field and create value to shareholders.

A Clear Vision

Whether you watch a TV series at home, play a video game or bring your kids to the movie theatres, entertainment is here to stay. The way we consume entertainment has evolved. Consumers now crave for immersion and the sense of presence. Over the years, D-BOX has developed a technology platform with applications in entertainment and simulation and training that garnered over 10 million users annually before the recent COVID-19 pandemic. While not necessarily an easy feat, the management team of D-BOX starves for much larger ambitions with the home entertainment opportunity. Does it make sense? Why not! After all, the haptic market is in its infancy of what could be a long secular growth cycle similar to the adoption of color television in 1950.

The focus for D-BOX remains to create long-term shareholder value. While the Corporation has developed key intellectual property and has proved that consumers are willing to pay for the immersive experience, management will tweak the business model to ensure a profitable and self-sustaining model as soon as its key markets recover from the adverse impact of the pandemic.

Resilience

The impact of the COVID-19 pandemic during the fiscal year ended March 31, 2021 has been significant for D-BOX with the commercial entertainment industry either on pause for a significant portion of the time or following the government's strict health and safety measures. However, we can be proud of the employees who stepped up and made significant sacrifices, rolled up their sleeves to innovate and positioned the Corporation for the home entertainment opportunity. With the vaccination rollout globally, the recovery of our key markets and the recent financing to strengthen the balance sheet and support key growth initiatives, the near future is promising.

New Board Members

I am pleased to welcome Ève Laurier and Jean-Pierre Trahan to the Board; both bringing senior level executive experience in strategic communication, corporate development and finance.
Also, I wish to thank Robert Copple for his valuable contribution to the Board. His insightful perspective and attention to details will be missed. We wish him all the best in his future endeavours.

Looking ahead to fiscal 2022, the Board is pleased with management's strategic plan and tactics as it considers the economic context and impacts of the COVID-19 pandemic. D-BOX's core business is poised for a recovery, and the plan to democratize the haptic technology into the home entertainment market, for video games, sim racing, and other entertainment experiences represents a significant market opportunity. The future is bright!

Sincerely,

Signed:

Denis Chamberland
Chairman of the Board

Message from the President and Chief Executive Officer

Dear fellow shareholders,

This past fiscal year has been a year like no other.

It goes without saying that the load of challenges we faced in the last year has forced our employees, our partners and our customers to overcome adversity.

From health and safety concerns, shutdown of our primary markets resulting in loss of revenues, managing hindered liquidity and depressed share price, the survival instinct of our employees demonstrated resilience, ability to transform and undeniable passion to succeed.

A Busy Year in Retrospect

I am proud of what we were able to accomplish on all fronts in a tough business environment. We were able to achieve an important milestone with our artificial intelligence initiative to increase the breadth and depth of our content library. Moreover, we have applied our key automatic content recognition software to our new home entertainment seat, allowing D-BOX to recognize and synchronize the content on screen with D-BOX Haptic Code. This will mitigate the risk of content dependency.

On the business side, we are pleased that our strategic plan is moving forward with several key partnerships. Ubisoft, Slightly Mad Studios (now part of Electronic Arts), CoolerMaster and AudioKinetic (a division of Sony Interactive Entertainment) are key signatures to our gaming cluster, while FIA and SimTag have strengthened our sim racing ecosystem. Additionally, we are proud that our partner Jaymar supports D-BOX's vision to democratize the haptic experience at home with the D-BOX Lifestyle entertainment seat. Consumers now have the opportunity to enhance their entertainment experience by feeling hyper-realistic and immersive sensations, while sparking their imagination at home and in commercial venues.

These commercial milestones were possible because we managed our balance sheet with an iron fist. Not only did we mitigate the adverse impact of the pandemic on our liquidity with proactive cash management strategies, but we have also restructured our banking facility with National Bank of Canada, added a new debt facility with the Business Development Bank of Canada, and proceeded with an equity financing of $5.75M to strengthen our balance sheet and finance growth opportunities.

Several Key Milestones Ahead

As disclosed last year, the expansion of D-BOX's technology platform towards home entertainment applications will be the cornerstone of the future. Here are three key pillars of our strategy:

1) Expand the compatibility, functionality and usability of our haptic solutions.
2) Increase the breadth and depth of our content portfolio of over 2,200 titles as of March 31, 2021.
3) Grow our partnership ecosystem to accelerate the adoption of our technology. D-BOX is looking to scale up its business with business partners that are well positioned in their respective markets; the addition of new integrators, value-added resellers and distributors will be critical for the long-term growth of D-BOX.

Market Recovery in Sight

As vaccines roll out across the world, restrictions lift and theaters reopen, early data shows that consumers are eager to get out of home and spend in out-of-home entertainment which would benefit our commercial entertainment segment. The simulation and training segment has been resilient as a result of the home racing simulation success in the past year. Moreover, the ultra-high precision of the software has allowed D-BOX to gain traction into other professional simulation submarket segments such as heavy equipment, defense, aerospace, agriculture and commercial racing simulation. The trend for local training facilities and more affordable simulators will benefit D-BOX's goal to continue to increase its global market penetration. As for the home entertainment, initiatives are relatively nascent and positive contribution could be seen in the second half of fiscal 2022.

In closing, we have accomplished a lot during the past year despite the pandemic slowing down certain initiatives. We overcame those challenges, and the upcoming year should be as exciting, even though we may still face adverse impacts of the COVID-19 pandemic. With several key deliverables regarding our technology, our business development initiatives and the execution of certain sales opportunities, we are on the right path to resume growth. I would like to thank all our partners, our customers, our employees and our investors for their infinite confidence, their desire to tackle the challenges together, and contributing to the espousal of the haptic growing trend. Earning their trust is at the centerpiece of our value creation strategy.

Sincerely,

Signed:

Sébastien Mailhot
President and CEO

5. FINANCIAL AND BUSINESS HIGHLIGHTS

5.1 COVID-19 Financial and Operational Impacts

During the fiscal year 2021 and fourth quarter ended March 31, 2021, a significant number of commercial entertainment venues were closed. Those who reopened, have been constrained with social distancing rules, local government business restrictions and, in the case of the theatrical market, a significant number of blockbuster movies have been postponed to a later date, affecting the demand for our products, activities, revenues, gross profit and operating results. The impacts are expected to continue in the upcoming quarters of the fiscal year ending March 31, 2022 and potentially through the end of such fiscal year.

5.2 Financial Highlights

Highlights for the Fiscal Year Ended March 31, 2021

- Cash and cash equivalents were $9.1 million as of March 31, 2021 compared to $4.1 million as of March 31, 2020.
- Total revenues decreased to $11.1 million from $25.9 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss decreased to $6.2 million from $6.3 million for the same period last year.
- Adjusted EBITDA* decreased to $(3.5) million from $0.6 million for the same period last year.
- Cash flow used in operating activities was $0.3M in FY2021 compared to $3.0M in FY2020 owing to cash management strategies of working capital.

Highlights for the Fourth Quarter Ended March 31, 2021

- Total revenues decreased to $2.9 million from $6.6 million for the same period last year as a result of the adverse impact of the COVID-19 pandemic.
- Net loss was $2.5 million compared to a net loss of $3.1 million during the same period last year.
- Adjusted EBITDA* decreased to $(1.6) million from $7 thousand for the same period last year.

Fiscal Year and Fourth Quarter Ended March 31 (in thousands of dollars, except per share data)				
	Fiscal Year		**Fourth Quarter**	
	2021	**2020**	**2021**	**2020**
Revenues	**11,080**	25,895	**2,936**	6,560
Net loss	**(6,192)**	(6,250)	**(2,491)**	(3,096)
Adjusted EBITDA*	**(3,549)**	612	**(1,592)**	7
Basic and diluted net loss per share	**(0.035)**	(0.036)	**(0.014)**	(0.019)
Information from the Consolidated Balance Sheets				
	As at March 31, 2021		**As at March 31, 2020**	
Cash and cash equivalents	**9,134**		**4,116**	

* See the "Non IFRS Performance Measures" section on page 12 and the table reconciling adjusted EBITDA* to net loss on page 17

- On March 4, 2021, the Corporation completed the public offering announced on February 25, 2021, and issued 44,275,000 units at a price of $0.13 per unit for aggregate gross proceeds of $5,756,000. Each unit is comprised of one Class A common share of the Corporation and one Class A common share purchase warrant entitling the holder to purchase one Class A common share of the Corporation at an exercise price of $0.16 until March 4, 2023.

5.3 Quarterly Operational Highlights

- D-BOX has entered into an agreement with SIMTAG BV, an innovator in developing and building simulators and accessories for sim racing, pursuant to which D-BOX will supply SIMTAG with haptic components to be integrated into SIMTAG's new active brake pedal with integrated FIA-licensed haptic technology. The value of the haptic components to be sold by D-BOX pursuant to this agreement is approximately $1.17 million (US$918,000) over the next year.
- D-BOX joins forces with Audiokinetic, Inc., a subsidiary of Sony Interactive Entertainment, the leading global provider of cross-platform audio solutions for the interactive media and gaming industries, to increase the breadth of interactive content offering the D-BOX haptic experience. Interactive content creators will be provided with the ability to create the enhanced immersive D-BOX experience via Audiokinetic's industry standard audio middleware solution Wwise®.
- D-BOX is partnering with five independent Quebec video gaming studios: 3Mind Games, Breaking Walls, Lucid Dreams Studio, Beyond Fun Studio and Astrolabe Interactive. Integrating D-BOX's exclusive haptic technology into certain games under development or currently available will enhance the gaming experience with a level of realism never seen before.
- In March 2021, D-BOX was granted by the United States Patent and Trademark Office ("USPTO") patent 10943446 for media recognition and synchronization to a motion signal. As of March 31, 2021, D-BOX has 104 patents granted and 83 patents application pending. While this technology has various applications, it is a key component for D-BOX's home entertainment solutions, notably the HaptiSync Hub.

6. OUTLOOK

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

The video game market could eventually become an important revenue contributor for D-BOX as its haptic products are integrated into gaming and streaming gears of which the market is estimated at about $40 billion in 2020 by Jon Peddie Research[1]. Gamers have long adopted basic haptics technology, with rumbles on video game controllers. D-BOX's vision is that the haptic cues enhance the emotional gaming experience and immersion, as well as improve the performance of gamers. D-BOX has signed agreements with one gaming chair manufacturer and one gaming accessories manufacturer that will collaborate with D-BOX to potentially launch a haptic integrated product in 2021. D-BOX is in active discussions to enroll additional gaming peripherals vendors and video gaming studios throughout 2021.

U.S. consumer spending on home entertainment content, which grew 15.8% to $30.0 billion[2] in 2020 and 10.1%[3] for the first quarter of 2021, is led by streaming services and video-on-demand. D-BOX launched through a commercial partnership, an immersive and haptic home entertainment seat to reach a broader consumer base earlier in November 2020. It is an important milestone for D-BOX as it is a foray into a commercial off-the-shelf model in the home entertainment segment. D-BOX will continue to develop strategies to reduce the cost for consumers.

The size and growth potential for the commercial entertainment market, including the theatrical and themed entertainment sub-markets, are large and will continue to grow, even if there is a temporary setback in some markets due to the COVID-19 pandemic. As vaccines roll out across the world, restrictions lift and theaters reopen, early data shows that moviegoers are willing to pay more for a premium experience such as D BOX. Consumers are eager to get entertained with an enhanced and immersive experience as validated by the strong results of *Godzilla vs Kong*; commercial theatres sold 25% more tickets in D-BOX versus the previous most successful prequel *Godzilla: King of the Monsters* during a period where most jurisdictions had social distancing measures, capacity limits per screen or temporary closures. With the upcoming blockbuster releases such as Fast & Furious' F9, Black Widow, James Bond: No Time To Die and Top Gun: Maverick, the outlook for the theatrical market is promising.

For the Simulation and Training segment, the market size is estimated to grow 13% per annum to US$20 billion by 2025[4]. Prior to the pandemic, the 3-year sales compounded annual growth rate was 14%. In fiscal 2021, the business was down 4%, but it was showing encouraging signs of recovery in the fourth quarter growing at 10%. The business fundamentals remain strong and growth should gradually resume.

While there are encouraging news about the global vaccination rollout and the fact that D-BOX's markets seem poised for a strong recovery, the uncertainty related to the magnitude and duration of COVID-19 pandemic could impact the financial performance of the Corporation in future reporting periods.

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[1] "Global PC Gaming Hardware Market Forecast", Jon Peddie Research, July 6, 2020
[2] "DEG Year-End 2020 Digital Media Entertainment Report", Digital Entertainment Group, January 27, 2021
[3] "DEG Mid-End 2020 Digital Media Entertainment Report", Digital Entertainment Group, May 11, 2021
[4] *Operator Training Simulator Market",* dated March 28, 2019 by Global Market Insights, Inc.

7. CORPORATE PROFILE

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

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

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

1. Software haptic effects are programmed as a track, frame by frame, in the case of linear content, or programmed as a library for interactive content based on the content's specific telemetry.
2. A haptic processor (or haptic controller) serving as an interface between the content (films, video games, music, wellness, simulation and training, VR experiences) and the D-BOX haptic system. This device is able to recognize the content being used or played, regardless of the source, and associate it with the appropriate D-BOX Haptic Code. It then enables the D-BOX haptic systems to be synchronized with the content.
3. The D-BOX haptic system, consisting, amongst other things, of proprietary electromechanical actuators built into a seat, platform, or other type of equipment.

As of March 31, 2021, after rightsizing the workforce, D-BOX had 91 employees compared with 126 employees at March 31, 2020.

8. CORPORATE STRATEGY

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

8.1 Revenue Models

The Corporation's revenue streams consist primarily of:

- the sale or lease of D-BOX hardware including haptic seats, haptic bases that are integrated into recliners or seats, haptic controllers and electronic interfaces or servers;
- revenues from the licensing of the D-BOX Haptic Code in commercial theatres and entertainment centres which are equipped with the D-BOX haptic systems to play content encoded by D-BOX. The Corporation also receives maintenance revenue relating to the use of the haptic systems;
- the sale 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 ("OEMs")).

8.2 Markets

8.2.1. Home Entertainment Market

The haptic experience at home is growing rapidly and major technology companies are starting to look at this market to differentiate their own product offering. D-BOX, with more than 20 years of experience is well established to support new players. The strategy is to enter into business partnerships with market leaders in these markets to integrate the D-BOX haptic experience in their products and to commercialize new products and applications. D-BOX will continue to develop the haptic experience with these partners in order to develop new products and applications for use by consumers that will integrate the D-BOX haptic experience.

The Corporation has developed or is developing business relationships with home entertainment partners that operate in the following sub-markets:

- video game peripherals such as:
  - Video gaming chairs;
  - Video game controllers; and
  - Sim racing rigs;
- virtual reality ("VR") systems; and
- furniture, including recliners and love seats.

According to recent market studies, the home entertainment market was valued at approximately US$29.1 billion in 2019[5,6] when combining the: (i) sim racing market size of approximately US$2.2 billion[5] in 2019; (ii) home recliner market size of approximately US$25.1 billion[6] in 2019; and (iii) video gaming simulator market size of approximately US$1.8 billion[5] in 2019. The Corporation's business model to address the home entertainment market will be based on the sale of haptic systems, hardware design licensing and recurring revenue from content subscription.

8.2.2. Commercial Market

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

Commercial Entertainment	Simulation and Training
Sub-markets: ▪ Location-based entertainment ▪ Theme Parks ▪ Arcades ▪ Museums ▪ Planetariums ▪ Commercial Theatres ▪ Virtual reality	**Sub-markets:** ▪ Automobile & sim racing ▪ Defense ▪ Flight ▪ Heavy Equipment ▪ Wellness ▪ Virtual Reality

[5] Grand View Research, Global Gaming Simulator Market, report dated November 16, 2020. According to this market study, the racing segment dominated the global gaming simulator market with a share of over 55% in 2019 from the global gaming simulator market size valued at US$4.04 billion in 2019 (US$2.2 billion), leaving US$1.8 billion for the video gaming simulator market.

[6] Man Wah Holdings Limited's Annual Report for the fiscal year ended March 31, 2020.

According to the market study "2019 Location-Based Virtual Reality Industry Report", dated August 5, 2019 by Greenlight Insight, it is anticipated that the market represented by the commercial entertainment segment will be approximately US$11.8 billion by 2023, and according to the market study "Operator Training Simulator Market", dated March 28, 2019 by Global Market Insights, Inc., the market represented by the simulation and training segment will be approximately US$20 billion by 2025.

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

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

Theatrical Entertainment

D-BOX offers its products and services to the theatrical market directly and through partners.

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

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

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

As of March 31, 2021, a total of 758 screens worldwide were equipped with D-BOX haptic systems in commercial theatres. Based on D-BOX's internal data, 4.6 million movie tickets were sold to moviegoers that experienced D-BOX haptic systems in commercial theatres during calendar year 2019, which was before the COVID-19 pandemic hit the theatrical market (approximately 947,000 D-BOX tickets were sold during calendar year 2020). There were 203,600 cinema screens globally in 2020.[7]

[7] Source : page 38 of the 2020 Theme Report published in March 2021 by the Motion Picture Association and available at https://www.motionpictures.org/wp-content/uploads/2021/03/MPA-2020-THEME-Report.pdf .

8.3 ESG Strategy

D-BOX is committed to advance ESG initiatives for the prosperity of our communities. We measure our progress in increasing environmental sustainability, achieving a diverse and inclusive workplace, and adopting leading corporate governance practices.

While D-BOX has a small direct carbon footprint given the nature of its activities, the adoption of its product contributes at reducing carbon emissions, by allowing users to live experiences at home or in a local environment, and by reducing the carbon footprint in the simulation and training market segment, which includes end-users notably in the aerospace, heavy equipment, car racing, and defense industries.

The Corporation is aware of the benefits of diversity among its employees. When selecting candidates for employment, the Corporation takes into consideration not only the qualifications, personal qualities, business background and experience of the candidates, it also considers representation by women and members of the Designated Groups as an added value. The term "Designated Groups" is defined in the Employment Equity Act (in general terms, women, visible minorities, Aboriginal people and persons with disabilities).

In April 2021, D-BOX hired COESIO, a consulting firm specialized in strategic planning and management of sustainable development practices. COESIO will help D-BOX to identify, integrate and measure sustainable development practices.

9. NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

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

- Gross profit excluding amortization is used to evaluate the Corporation's capacity to generate funds through product sales by considering the cost of these products while excluding the main non-cash item, namely amortization (see the table reconciling gross profit to gross profit excluding amortization on page 15).

10. MAIN FINANCIAL DATA

The following tables show selected significant financial information for the current fiscal year and fourth quarter ended March 31, 2021 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	
	2021	2020	2021	2020
Revenue	**11,080**	25,895	**2,936**	6,560
Gross profit excluding amortization*	**5,434**	15,843	**1,373**	3,715
Net loss	**(6,192)**	(6,250)	**(2,491)**	(3,096)
Adjusted EBITDA*	**(3,549)**	612	**(1,592)**	7
Basic and diluted net loss per share	**(0.035)**	(0.036)	**(0.014)**	(0.019)

* See the "Non IFRS Performance Measures" section on page 12 and the table reconciling adjusted EBITDA* to net loss on page 19

Information from the Consolidated Statements of Cash Flows	Fiscal year ended March 31	
	2021	2020
Cash flows provided by (used in) operating activities	**(314)**	(3,022)
Goods held for lease	**—**	(308)
Additions to intangible assets	**(467)**	(819)
Additions to property and equipment	**(13)**	(474)
Cash flows provided by (used in) financing activities	**5,712**	(1,280)

The following table shows certain selected significant financial information from the consolidated balance sheets as at March 31, 2021 and March 31, 2020:

(Amounts are in thousands of Canadian dollars)

Information from the Consolidated Balance Sheets	As at March 31, 2021	As at March 30, 2020
Cash and cash equivalents	**9,134**	4,116
Inventories	**4,547**	6,531
Total assets	**23,736**	26,871
Total current liabilities	**7,864**	10,916
Total liabilities	**10,205**	12,521
Equity	**13,531**	14,350

11. OPERATING RESULTS

11.1 Revenues

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

	Fiscal year ended March 31				Fourth quarter ended March 31			
	2021	2020	Variation ($)	Variation (%)	**2021**	2020	Variation ($)	Variation (%)
Revenues from								
System sales								
Commercial entertainment	1,217	9,539	(8,331)	-87%	75	2,969	(2,894)	-97%
Home entertainment	1,004	744	269	36%	162	159	3	2%
Simulation and training	7,974	8,277	(303)	-4%	2,391	2,163	228	11%
	10,195	18,560	(8,365)	-45%	2,628	5,291	(2,663)	-50%
Rights for use, rental and maintenance	885	7,335	(6,450)	-88%	2,391	1,269	1,122	88%
TOTAL REVENUES	11,080	25,895	(14,815)	-57%	5,019	6,560	(1,541)	-23%

Total revenues for the fiscal year ended March 31, 2021, were $11.1 million from $25.9 million for the same period last year.

Total revenues for the fourth quarter ended March 31, 2021, decreased to $5.0 million compared with $6.6 million for the fourth quarter ended March 31, 2020.

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

Commercial Entertainment Market

The commercial entertainment market is comprised mainly of the theatrical and themed entertainment markets. During the fiscal year 2021 and fourth quarter ended March 31, 2021, a large number of commercial entertainment venues were closed, which impacted their procurement and capital expenditures, resulting in a significant decline in D-BOX's revenues for those segments. The impacts are expected to continue in the first and second quarters of the fiscal year ending March 31, 2022, and potentially through the end of such fiscal year as their capital budget may continue to be constrained.

Home Entertainment Market

During the fiscal year ended March 31, 2021, the increase of home entertainment revenues is explained by the resilience of our home high end segment and by the launch of a new product in the second half of the year.

Simulation and Training Market

During the fiscal year ended March 31, 2021, revenues have declined slightly. However, revenues have resumed growth in the fourth quarter owing to traction of the sim racing segment.

Rights for use, rental and maintenance

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

During the fiscal year 2021 ended March 31, 2021, a significant number of commercial entertainment venues were closed. Those who reopened, have been constrained with social distancing rules, local government business restrictions and, in the case of the theatrical market, a significant number of blockbuster movies have been postponed to a later date, affecting revenues, gross profit, and operating results. However, during the fourth quarter ended March 31, 2021, a larger number of commercial theatres have reopened and the release of a blockbuster in commercial theatres which explains the sequential growth of rights for use, rental and maintenance.

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		
	2021	2020	Variation (%)	2021	2020	Variation (%)
Revenues	11,080	25,895	-57%	2,936	6,560	-55%
Gross profit	4,110	13,937	-71%	1,073	3,170	-66%
Amortization related to cost of goods sold	1,324	1,906	-31%	300	545	-45%
Gross profit excluding amortization*	5,434	15,843	-66%	1,373	3,715	-63%
Gross margin excluding amortization	49%	61%		47%	57%	

* See the "Non-IFRS Performance Measures" section on page 12.

The Gross margin excluding amortization decreased during the fourth quarter and on an annual basis due to the revenue mix. Rights for use, rental and maintenance revenues represented 11% of total revenues during the quarter compared to 28% in the previous year (see section11.1 revenues for more details).

11.3 Operating Expenses

The following table summarizes the evolution of expenses during the current quarter and year to date. As a result of the COVID-19 pandemic that affected the Company's revenues, our expenses are significantly lower than last year. Nonetheless, efforts and expenses have been reallocated to strategic areas of the organization such as research and development and the transformation towards the Home Entertainment market. With revenues being significantly lower than last year, the percentage of expenses over revenues is higher than last year in each of the expense categories. Details of the nature of expenses are provided following the table for more details. The Corporation has taken steps to reduce selling and marketing expenses in fiscal 2021 to align with the market situation due to COVID-19.

(Amounts are in thousands of Canadian dollars)

	Fiscal year ended March 31			Fourth quarter ended March 31		
	2021	**2020**	**Variation (%)**	**2021**	**2020**	**Variation (%)**
Selling and marketing	**3,905**	8,975	-56%	**1,289**	2,046	-37%
% of Revenues	35%	35%		44%	31%	
Administration	**3,947**	5,771	-32%	**1,228**	1,427	-14%
% of Revenues	36%	22%		42%	22%	
Research and development	**1,920**	2,958	-35%	**708**	893	-21%
% of Revenues	17%	11%		24%	14%	
Foreign exchange loss (gain)	**(133)**	605	-122%	**(12)**	488	-102%
% of Revenues	-1%	2%		0%	7%	

Government assistance: For the year ended March 31, 2021, the Corporation recognized government assistance amounting to $2.7 million related to the Canada Emergency Wage Subsidy. An amount totaling $2.6 million was recorded as a reduction of operating expenses [reduction of employee costs included in cost of goods sold for $370 thousand, selling and marketing for $914 thousand, administration for $597 thousand and research and development for $667 thousand] and an amount totaling $132 thousand was recorded as a reduction of intangible assets.

The Corporation also recognized government assistance amounting to $89 thousand related to the Canada Emergency Rent Subsidy for the year ended March 31, 2021, and this amount was recorded as a reduction of administration expenses.

Finally, the Corporation recognized government assistance amounting to $40 thousand related to the Programme Innovation Subsidy for the year ended March 31, 2021, and this amount was recorded as a reduction of other expenses included in research and development.

An amount of $303 thousand was still to be received and included in accounts receivable as at March 31, 2021.

Selling and Marketing: Selling and marketing expenses consist primarily of employee costs including share-based payments, professional fees, advertising and point-of-sale material expenses and attendance at trade shows. They also include expenses related to motion coding and other marketing expenses. During the second quarter ended September 30, 2020, a restructuring provision amounting to $414 thousand was reversed as it was no longer required.

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

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

Foreign Exchange Gain or Loss: Foreign exchange gain results primarily from the fluctuation of the Canadian dollar relative to the U.S. currency when translating U.S. dollar operations at the prevailing rate on the date of a transaction and the translation of U.S. dollar monetary assets and liabilities at the end-of-period rate. Foreign exchange gain includes the change in fair value of derivative financial instrument related to foreign exchange.

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, 2021, financial expenses net of interest income remained unchanged at $0.5 million compared to last year.

For the fourth quarter ended March 31, 2021, financial expenses net of interest income amounted to $149 thousand compared with $78 thousand for the same period of the previous year. The increase in financial expenses is related to the new loan obtained at the beginning of the 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

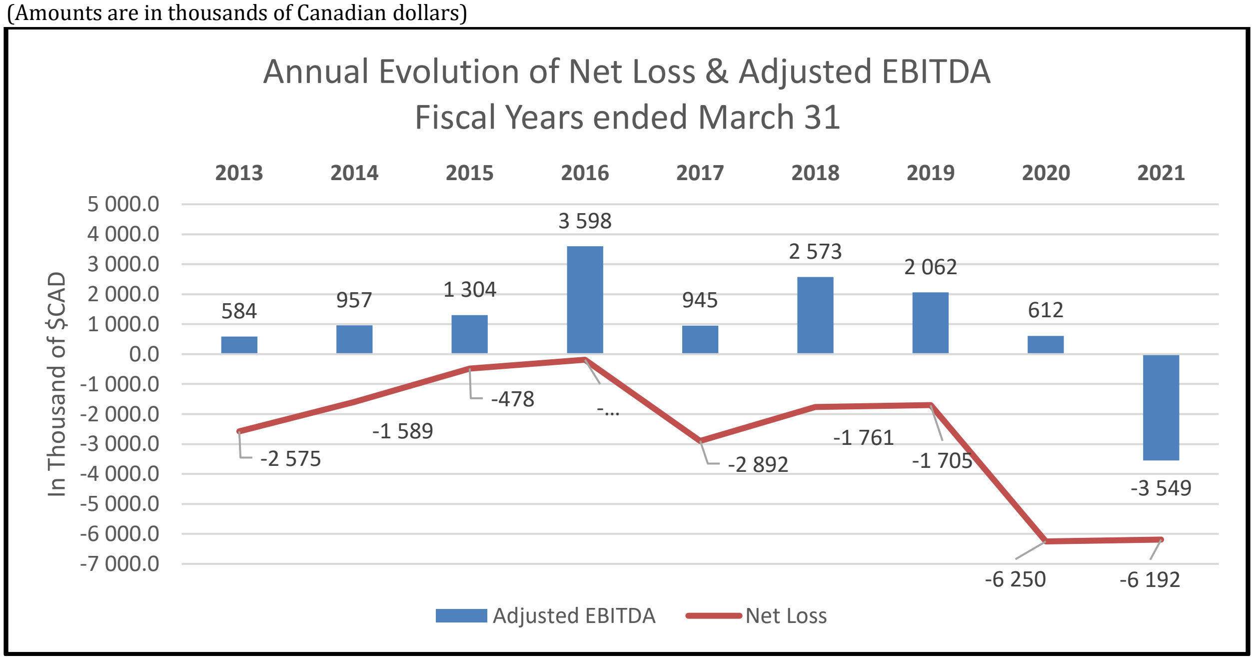
For the fiscal year ended March 31, 2021, net loss amounted to $6.2 million (basic and diluted net loss of $0.035 per share) compared with a net loss of $6.3 million (basic and diluted net loss of $0.036 per share) for the same period last year.

Net loss for the fourth quarter ended March 31, 2021, amounted to $2.5 million (basic and diluted net loss of $0.014 per share) compared with a net loss of $3.1 million (basic and diluted net loss of $0.019 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 Performance measure" section on page 12.

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

For the fiscal year ended March 31, 2021, adjusted EBITDA amounted to a loss of $3.5 million compared with an income of $612 thousand for the same period last year. For the fourth quarter ended March 31, 2021, adjusted EBITDA amounted to a loss of $1.6 million compared with an income of $7 thousand for the same period last year.

The following table reconciles adjusted EBITDA to net loss:

(Amounts are in thousands of Canadian dollars)

	Fiscal year ended March 31		Fourth quarter ended March31	
	2021	2020	**2021**	**2020**
Net loss	**(6,192)**	(6,250)	**(2,491)**	(3,096)
Amortization of property and equipment	**1,530**	1,914	**267**	523
Amortization of intangible assets	**819**	905	**211**	241
Amortization of other assets	**—**	2	**—**	—
Write-offs of property and equipment	**24**	—	**24**	—
Impairment of property and equipment	**235**	765	**235**	765
Impairment of intangible assets	**—**	508	**—**	508
Impairment (reversal) of finance lease receivable	**(26)**	52	**(26)**	52
Financial expenses (income)	**488**	545	**150**	78
Income taxes (recovery)	**(34)**	8	**(32)**	9
Share-based payments	**154**	155	**58**	39
Foreign exchange loss (gain)	**(133)**	605	**12**	488
Restructuring costs	**(414)**	1,403	**—**	400
Adjusted EBITDA	**(3,549)**	612	**(1592)**	7

* See the "Non-IFRS Performance measure" section on page 12.

13. LIQUIDITY, CAPITAL RESOURCES AND FINANCING SOURCES

13.1 Operating Activities

For the fiscal year ended March 31, 2021, cash flows used in operating activities totaled $314 thousand compared with cash flows used in operating activities of $3.0 million for the same period last year. This $2.7 million favorable variance in cash flows related to operating activities was mainly the result of the net favorable cash flows variance from the working capital.

13.2 Investing Activities

During the fiscal year ended March 31, 2021, cash flows used in investing activities amounted to $0.4 million compared with $1.3 million last year. The $0.9 million variance consists mainly of a reduction in additions to intangible assets and property and equipment.

13.3 Financing Activities

During the fiscal year ended March 31, 2021, cash flows provided by financing activities amounted to $5.7 million compared with cash used of $1.3 million last year. During the year, the Company issued shares and warrants for net proceeds of $5.1 million and issued new debts for net proceeds of $6.0 million. Also during the year, repayment of long-term debt amounted to $4.0 million, repayment of credit facility amounted to $1.1 million, payment of lease liabilities amounted to $0.3 million.

During the fiscal year ended March 31, 2021, the financial expenses on interest bearing debt amounted to $501 thousand compared with $642 thousand in 2020 due to lower interest rates.

13.4 Equity

Equity decreased by $819 thousand million to $13.5 million as of March 31, 2021, from $14.3 million as of March 31, 2020. The decrease is explained mainly from the $5.8 million comprehensive loss and the issuance of equity and warrants for a net amount of $4.8 million.

13.5 Working Capital

Total working capital increased by $2.2 million to $9.0million as of March 31, 2021, compared with $6.7 million as of March 31, 2020:

Current assets decreased to $16.8 million as of March 31, 2021 from $17.6 million as of March 31, 2020 which was mainly due to the reduction of $4.1 million in accounts receivable, a reduction of $2.0 million in inventories, and partially offset by the increase of $5.0 million from $4.1 million to $9.1 million in cash and cash equivalents.

Current liabilities decreased to $7.9 million as of March 31, 2021 from $10.9 million as of March 31, 2020 and was mainly due to the reduction of $3.6 million in the current portion of long-term debt, a reduction of $1.2 million in accounts payable and accrued liabilities, and partially offset by the increase of $2.9 million in a credit facility.

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)

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rights for use, rental and maintenance	**308**	230	249	98	1,269	1,821	1,811	2,434
System sales	**2,628**	2,767	2,668	2,132	5,291	3,652	4,518	5,099
TOTAL REVENUES	**2,936**	2,997	2,917	2,230	6,560	5,473	6,329	7,533
Adjusted EBITDA*	**(1,592)**	(1,288)	(571)	(98)	7	276	114	215
Net loss	**(2,491)**	(2,194)	(540)	(967)	(3,096)	(1,615)	(933)	(606)
Basic and diluted net loss per share	**(0.014)**	(0.012)	(0.003)	(0.005)	(0.019)	(0.008)	(0.006)	(0.003)
(in thousands) **Weighted average number of common shares outstanding**	**179,226**	175,951	175,951	175,951	175,951	175,951	175,951	175,951

* See the "Non IFRS Performance Measures" section on page 12 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)

	$
2022	63
2023	32
2024	7
2025	6
	108

16. Fully Diluted Share Capital (June 7, 2021)

	Class A common shares
Class A common shares outstanding	220,225,573
Convertible instruments	
Stock-options outstanding	12,023,534
Warrants	48,847,441
	281,096,548

17. 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 uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgements and estimates. For the year ended March 31, 2021, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, and other non-financial assets. Based on this assessment, an impairment charge of $235 thousand was recorded for the year. Impairment charges totaling $1.3 million affecting mainly goods held for lease and D-BOX motion technology were recorded at the end of fiscal 2020 at the onset of the pandemic. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, property and equipment and intangible assets. The duration and full financial effect of the COVID-19 pandemic on the entertainment industry is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Judgements

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

Leases

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 lease 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.

Intangible assets

Development costs related to D-BOX motion technology are capitalized in accordance with the accounting policy described in note 2.13 of the financial statements. 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.

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 judgements 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 provision for expected credit losses.

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 of disposal and its value in use. The fair value less costs of disposal 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.

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 of the financial statements.

18. 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 a $57 thousand impact on net loss and comprehensive loss for the year ended March 31, 2021 [no impact for the year ended March 31, 2020].

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.

Credit Risk

The Corporation is exposed to credit losses arising from payment defaults by third parties. The Corporation evaluates the creditworthiness of its clients 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, 2021, five clients accounted for 41% of total trade accounts receivable and 39% of trade accounts receivable were 89% insured [as at March 31, 2020, three clients accounted for 41% of total trade accounts receivable and 80% 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 31% as at March 31, 2021 [18% in 2020]. The Corporation allowance for expected credit losses amount to $253 thousand as at March 31, 2021 [$332 thousand as at March 31, 2020]. Accounts receivable include investment tax credits, commodity taxes and government assistance receivables, 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.

As at March 31, 2021, cash equivalents consist of liquid investments, bearing interest at 0.55% and with no fixed maturity.

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, 2021, financial assets, consisting primarily of cash and cash equivalents, trade accounts receivable and deposits denominated in U.S. dollars, totaled $1.3 million, $1.1 million and $95 thousand respectively [$338 thousand, $3.4 million and $15 thousand, respectively, as at March 31, 2020], and financial liabilities denominated in U.S. dollars totaled $430 thousand [$743 thousand as at March 31, 2020]. As at March 31, 2021, a 10% increase or decrease in the exchange rate between the U.S. dollar and the Canadian dollar would have had a $261 thousand impact on net loss and comprehensive loss [$541 thousand as at March 31, 2020].

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, 2021, the Corporation held foreign exchange contracts with a nominal value of ranging from US $3.7 million to US $4.8 million [US $13.4 million as at March 31, 2020], allowing it to sell U.S. currency at a Canadian dollar exchange rate ranging from 1.3000 to 1.3376 [1.3050 to 1.3501 as at March 31, 2020] maturing from April 2021 to December 31, 2022 [April 2020 to March 2021 in 2020].

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, 2021, the Corporation's financial liabilities which had contractual maturities of under one year consisted of its credit facility, accounts payable and accrued liabilities, current portion of lease liabilities, and current portion of long-term debt amounting to $7.1 million [$9.8 million as of March 31, 2020]. Non-current contractual liabilities include lease liabilities amounting to $700 thousand [$1.1 million as of March 31, 2020], long-term debt to $1.6 million [Nil as of March 31, 2020].

19. 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 June 7, 2021, which is available on www.sedar.com.

20. 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.

21. 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, 2021.

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.

Finally, there has been no change in the Corporation's internal control during the financial period beginning April 1, 2020 and ending March 31, 2021 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, except for the implementation of an additional measure of analysis of effective controls over the accounting of non-routine complex transactions related to lease agreements as stated in the Management's Discussion and Analysis for the fiscal year ended March 31, 2020.

22. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

This MD&A was prepared as at June 7, 2021. Additional information can be found on the SEDAR website at www.sedar.com.

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