# Management's Discussion and Analysis

## D-BOX Technologies Inc.
## Second Quarter ended September 30, 2019

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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 second quarter and the six-month period ended September 30, 2019, by comparing them to the results of the corresponding periods of the previous fiscal year. It also presents a comparison of the balance sheets as at September 30, 2019 and March 31, 2019.

This MD&A has been prepared in accordance with Regulation 51-102, respecting Continuous Disclosure Obligations, and should be read in conjunction with the information included in the consolidated financial statements and MD&A for the fiscal year ended March 31, 2019, and the unaudited interim condensed consolidated financial statements of the second quarter and the six-month period ended September 30, 2019. Unless otherwise indicated, the terms "Corporation" and "D-BOX" refer to D-BOX Technologies Inc.

The unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2019, and this MD&A were reviewed by the Audit Committee and approved by the Board of Directors on November 14, 2019. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

## 2. FORWARD-LOOKING STATEMENTS

Some of the statements made in this MD&A, including, but not limited to, statements about the opinions, projects, objectives, strategies, estimates, intentions and expectations of the Corporation, as well as other statements not referring to historical facts, are forward-looking statements. Forward-looking statements can be identified by terms such as "expects," "anticipates," "estimates," "predicts," "undertakes," "believes," "foresees," "intends," and other similar terms and expressions. These statements are based on the information available at the time they were prepared and management's good faith assumptions and expectations regarding future events, and inherently involve known and unknown risks and uncertainties such as, without limitation, competition, the Corporation's ability to build on its technology, the Corporation's ability to continue developing its distribution network and entering into new commercial agreements in the entertainment and simulation and training markets, exchange rate fluctuations, and other factors discussed herein (see "Risks and Uncertainties") or in the Corporation's continuous disclosure filings. The Corporation's actual results may be materially different from those expressed or implied in these forward-looking statements. As a result, readers are cautioned not to place undue reliance on these forward-looking statements. These statements do not reflect the potential impact of any special items or of any business combination or other transaction that may be announced or that may occur after the date hereof. Except as required by law, the Corporation does not intend, and undertakes no obligation, to update any forward-looking statements to reflect, in particular, new information or future events.

# 3. SECOND QUARTER HIGHLIGHTS

## 3.1 Financial Highlights

During the second quarter, financial results were lower due to various factors, including constrained capital expenditures within existing customers, international economic uncertainty and the absence of large project deals (additional details can be found in sections 8 and 9).

### *Highlights for the second quarter ended September 30, 2019*

- Revenues totalled $6.3 million compared to $8.1 million for the same period last year.
- Recurring revenues were $1.8 million compared to $2.1 million for the same period last year.
- Revenues in the Simulation and Training market increased 14% year over year to $1.8 million.
- Quarterly adjusted EBITDA* remained flat at $0.1 million compared to the same period last year.
- Adjusted EBITDA* margin also remained flat at 2% compared to the same period last year.
- Net loss totalled ($0.9 million) compared with ($0.7million) for the same period last year.

### *Highlights for the six-month period ended September 30, 2019*

- Revenues totalled $13.9 million compared to $17.6 million for the same period last year.
- Recurring revenues were $4.2 million compared to $4.7 million for the same period last year.
- Revenues in the Simulation and Training market grew 14% year over year to $4.1 million.
- Adjusted EBITDA* was $0.3 million compared to $1.3 million for the same period last year.
- Adjusted EBITDA* margin declined to 2% compared to 7% for the same period last year.
- Net loss totalled ($1.5 million) compared to ($1.0 million) for the same period last year.

| **Second quarter and Six-month period ended September 30** (in thousands of dollars, except per share amounts) | | | | |
|---|---|---|---|---|
| | **Second Quarter** | | **Six-month Period** | |
| | **2019** | **2018** | **2019** | **2018** |
| Revenues | **6,329** | 8,086 | **13,862** | 17,598 |
| Net loss | **(933)** | (748) | **(1,539)** | (977) |
| Adjusted EBITDA* | **114** | 127 | **329** | 1,284 |
| Basic and diluted net loss per share | **(0.005)** | (0.004) | **(0.009)** | (0.006) |

| **Information from the consolidated balance sheet** | | |
|---|---|---|
| | **As at September 30, 2019** | **As at March 31, 2019** |
| Cash and cash equivalents | **6,202** | 9,635 |

* See the "Non IFRS Measures" section and the reconciliation table of adjusted EBITDA to the net loss on page 7.

### 3.2 Operational Highlights

- VRX, in collaboration with D-BOX, teamed up with Microsoft and the McLaren Group to launch the world's most upscale Forza Simulator as part of Microsoft's flagship store in London, UK. The simulator is built on a McLaren Senna chassis, interfaces with Forza Motorsport 7 on Xbox One and integrates D-BOX Motion System ("Motion Systems").

- Porsche and Sifat unveiled a new racing simulator with D-BOX motion technology at the launch of the Taycan in Barcelona in order to replicate a realistic driving experience.

- D-BOX's growth in the simulation and training market has continued with established partners such as Precision Flight Control, CM Labs Simulations, Simformotion and IMS who continue to win important contracts.

- Grand opening of the first 3 D-BOX Motion Systems ("Motion Systems") auditoriums at Hoyts, the leading theatrical chain in Australia and a member of the AMC Entertainment Company. Hoyts operates a cinema circuit of more than 463 screens.

- D-BOX and Bergen Kino, a theatrical exhibitor in Norway, inaugurated the largest auditorium in Europe with Bergen Kino in Norway. It is D-BOX's first auditorium with Bergen Kino and it will be comprised of 84 Motion Systems.

- D-BOX has taken Indian moviegoers by storm; PVR Cinemas, India's largest exhibitor, successfully inaugurated 3 auditoriums in Mumbai with more auditoriums to be installed in upcoming quarters. PVR operates a cinema circuit of more than 745 screens in 160 locations.

- D-BOX encoded its first Bollywood movie, War, an Indian action thriller film from Yash Raj Films Movies which is so far the top performing box office Bollywood movie in 2019. Bollywood content combined with D-BOX immersive experiences will be offered to the growing list of D-BOX screens around the world to the benefit and joy of numerous D-BOX fans.

## 4. OUTLOOK

D-BOX operates in two major areas: the entertainment market and the simulation and training market which have their respective sub-markets. Business development activities focus on increasing motion system sales and grow its recurring revenue. This strategy will help solidify D-BOX's position in existing sub-markets and facilitate entering new segments.

D-BOX's expertise in immersive motion and true-to-life simulation positions the Corporation to be an active participant in the growing virtual reality (VR) market. D-BOX proprietary technology may also enhance the expansion of VR by reducing the motion dizziness sometimes associated with VR experiences.

Despite challenging results, D-BOX believes the future of the organization is positive. In the last four years, the Corporation has invested to develop new solutions to position the Corporation for new entertainment trends, namely streaming, gaming, and virtual and augmented reality. Within the next twelve to eighteen months, the Corporation will be releasing several products that will be key for the next growth phase while aiming at enhancing our focus on its profitability and cash flow generation.

## 5. CORPORATE PROFILE

D-BOX is redefining the entertainment experience. We create realistic, immersive entertainment experiences by moving the body and sparking the imagination through motion. The Corporation's expertise and proprietary technology allows it 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 is programming 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 of September 30, 2019, D-BOX had 136 employees compared with 138 as of September 30, 2018.

## 6. CORPORATE STRATEGY

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

<table>
<tr><th colspan="2">Examples of Application</th></tr>
<tr><th>Entertainment Market</th><th>Simulation and Training Market</th></tr>
<tr><td>Theatrical Entertainment:<br><br>Commercial Entertainment:<br>▪ Amusement parks<br>▪ Arcades<br>▪ Location-Based Entertainment<br>▪ Museums and planetariums<br><br>Home Entertainment</td><td>Simulation and training for:<br>▪ Automotive<br>▪ Flight<br>▪ Heavy equipment/cranes<br>▪ Racing<br>▪ Wellness</td></tr>
<tr><td colspan="2">Virtual reality for both the Entertainment and the Simulation and Training markets</td></tr>
</table>

## 6.1 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 revenue is generated by the licensing of the D-BOX Motion Code in theatrical and commercial entertainment centers equipped with the D-BOX motion systems to view visual content encoded by D-BOX. The Corporation also receives maintenance revenue relating to the use of the motion systems.

3. 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 or OEMs).

## 6.2 Entertainment Market

**Theatrical Entertainment**

D-BOX offers its products and services to the theatrical market directly and through channel partners. There are 190,000 cinema screens[1] globally in 2018.

The Corporation's business strategy to increase sales in the Theatrical market are the following:

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 in existing screens.

As of September 30, 2019, the number of total screens installed or in backlog grew 7% to 787 at the end of second quarter ended September 30, 2019 compared with 733 a year earlier. 51 exhibitors had more than one location that integrated the D-BOX motion system and 196 locations had more than one screen incorporating our technology within the same complex. The Corporation defines system backlog as follows: a D-BOX motion system commitment or order received as part of a contractual agreement with installation scheduled within a 24-month period.

**Commercial and High-End Home Entertainment**

The commercial entertainment segments include projects related to amusement parks, arcades, museums and planetariums. In the recent years, the growth of Family Entertainment Center ("FEC"), a sub-segment of the amusement park market, have 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 are the following:

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

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[1] Source: 2018 THEME Report as of February 2019

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 7

4. Develop new products.

### 6.3 Simulation and Training Market

Simulation and training market sales target a diversified group of industries including: automotive, defence, flight, heavy equipment/cranes, racing, and wellness. 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 Simulation and Training Market are the following:

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.

## 7. 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 provided by operations. It consists of net income (loss) excluding amortization, financial expenses net of income, income taxes, write-offs of property and equipment and intangible assets, shared-based payments, foreign exchange loss (gain) and non-recurring expenses related to restructuring costs.

   The following table reconciles adjusted EBITDA* to net loss.

| | Second Quarter ended September 30 | | Six-month Period ended September 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Net Income (loss)** | **(933)** | (748) | **(1,539)** | (977) |
| Amortization of property and equipment | **439** | 538 | **856** | 1,110 |
| Amortization of intangible assets | **204** | 204 | **462** | 405 |
| Amortization of other assets | **1** | 1 | **2** | 2 |
| Write-offs of property and equipment | **2** | — | **2** | — |
| Financial expenses | **280** | 128 | **373** | 262 |
| Income taxes | **6** | 50 | **(1)** | 78 |
| Share-based payments | **16** | 38 | **61** | 93 |
| Foreign exchange loss (gain) | **99** | (84) | **113** | 311 |
| **Adjusted EBITDA** | **114** | 127 | **329** | 1,284 |

2) Gross profit excluding amortization serves 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 10).

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 8

# 8. MAIN FINANCIAL DATA

The following table shows selected significant financial information for the second quarter of the current fiscal year compared with the corresponding period of the previous fiscal year.

| Information from the Consolidated Statements of Net Loss and Comprehensive Loss | Second Quarter ended September 30 | | Six-month Period ended September 30 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | **6,329** | 8,086 | **13,862** | 17,598 |
| Gross profit excluding amortization* | **3,858** | 4,551 | **8,564** | 10,441 |
| Net loss | **(933)** | (748) | **(1,539)** | (977) |
| Adjusted EBITDA* | **114** | 127 | **329** | 1,284 |
| Basic and diluted net loss per share | **(0.005)** | (0.004) | **(0.009)** | (0.006) |

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

| Information from the Consolidated Statements of Cash Flows | Six-month Period ended September 30 | |
|---|---|---|
| | 2019 | 2018 |
| Cash flows relating to operating activities | **(1,381)** | (1,240) |
| Goods held for lease | **(75)** | (58) |
| Additions to property and equipment | **(357)** | (139) |
| Additions to intangible assets | **(558)** | (366) |

The following table shows certain selected significant financial information from the consolidated balance sheets as at September 30, 2019 and March 31, 2019.

| Information from the Consolidated Balance Sheets | As at September 30, 2019 | As at March 31, 2019 |
|---|---|---|
| Cash and cash equivalents | **6,202** | 9,635 |
| Inventories | **7,707** | 7,526 |
| Working capital | **13,871** | 12,126 |
| Total assets | **29,302** | 33,764 |
| Total current liabilities | **5,789** | 12,403 |
| Non-current liabilities | **4,366** | 838 |
| Total liabilities | **10,155** | 13,241 |
| Equity | **19,147** | 20,523 |

# 9. OPERATING RESULTS

## 9.1 Revenue

Revenue for the second quarter ended September 30, 2019, decreased 22% to $6.3 million compared with $8.1 million for the second quarter ended September 30, 2018. For the six-month period ended September 30, 2019, total revenue was $13.9 million, down 21% from $17.6 million for the same period last year.

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

During the second quarter ended September 30, 2019, the entertainment market fell 31% to $4.5 million from $6.5 million year over year. For the six-month period ended September 30, 2019, the entertainment market fell 30% in revenue to $9.8 million compared with $14.0 million for the first half of previous year

Revenue from theatrical entertainment fell 25% to $3.6 million for the current quarter from $4.8 million for the same period last year. This revenue consisted of: (i) D-BOX motion systems sales, down 34% to $1.8 million ($2.7 million in 2018) (ii) recurring revenue from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 14% to $1.8 million ($2.1 million in 2018). Revenue from theatrical entertainment fell 19% to $7.8 million for the current six-month period from $9.6 million for the same period last year. These revenues consisted of: (i) D-BOX motion systems sales, down 28% to $3.5 million ($4.9 million in 2018) (ii) recurring revenue from rights for use, rental and maintenance on the sale of admission tickets in commercial theatres, down 10% to $4.2 million ($4.7 million in 2018).

Recurring revenue from rights for use, rental and maintenance can fluctuate from period to period based on the following factors:

- Box office performance can vary significantly from movie to movie.
- Revenue sharing with exhibitors and studios.
- Individual performance of exhibitors.
- The number of weekly screenings for a D-BOX movie, which can vary by country and exhibitor.
- The number of weeks a movie screens, which can 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 high-end home entertainment and commercial entertainment. Home entertainment revenues fell 52% to $0.2 million for the second quarter ended September 30, 2019 from $0.4 million for the same period last year. For the six-month period ended September 30, 2019, home entertainment revenue fell 48% to $0.3 million from $0.6 million year over year.

Commercial entertainment system sales fell 45% to $0.7 million for the current quarter from $1.3 million for the same period last year on both new and existing-client sales. For the six-month period ended September 30, 2019, Sales fell 55% to $1.7 million from $3.8 million for the same period last year.

Revenue also includes 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 14% to $1.8 million for the second quarter ended September 30, 2019, from $1.6 million for the same period last year. For the six-month period ended September 30, 2019, sales grew 14% to $4.1 million from $3.6 million for the same period last year. Sales growth was mainly driven by Simulation and Training systems sold to customers in the automotive, race car and gaming sub-markets.

(Amounts in tables are in thousands of Canadian dollars, except for amounts relating to warrant, options, shares and per-share amounts) Page 10

## 9.2 Gross Profit

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

| | Second Quarter ended September 30 | | Six-month Period ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Revenue | **6,329** | 8,086 | **13,862** | 17,598 |
| Gross profit | **3,468** | 4,048 | **7,721** | 9,431 |
| Amortization related to cost of goods sold | **390** | 503 | **843** | 1,010 |
| Gross profit excluding amortization* | **3,858** | 4,551 | **8,564** | 10,441 |
| Gross margin excluding amortization | **61%** | 56% | **62%** | 59% |

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

For the second quarter ended September 30, 2019, gross profit fell 14% for the same period year over year. Excluding amortization related to cost of goods sold, gross profit was down 15% to $3.9 million for the second quarter ended September 30, 2019 (61% of revenues) from $4.6 million (56% of revenues) for the corresponding period last year.

For the six-month period ended September 30, 2019, gross profit stood at $7.7 million (56% of revenue) down 18% from $9.4 million (54% of revenue) for 2018. Excluding amortization related to cost of goods sold, gross profits fell 18% to $8.6 million (62% of revenue) for the six-month period ended September 2019 from $10.4 million (59% of revenue) year over year.

## 9.3 Operating Expenses

**Selling and Marketing:** selling and marketing expenses consist primarily of employee costs including share-based payments, professional fees, advertising and point-of-sale material expenses and attendance at trade shows. They also include expenses related to motion coding and other marketing expenses.

For the second quarter ended September 30, 2019, selling and marketing expenses fell 13% to $2.1 million (32% of revenues) from $2.4 million (29% of revenue) for the same period last year.

For the six-month period ended September 30, 2019, selling and marketing expenses were $4.6 million (33% of revenues) down 9% from $5.0 million (29% of revenue) year over year.

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

For the second quarter ended September 30, 2019, administration expenses amounted to $1.4 million (22% of revenue) down 12% from $1.6 million (20% of revenue) for the corresponding period ended September 30, 2018.

For the six-month period ended September 30, 2019, administration expenses stood at $2.8 million (20% of revenues) down 12% from $3.2 million (18% of revenue) for the same period ended September 2018.

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

For the second quarter ended September 30, 2019, research and development expenses amounted to $0.6 million (9% of revenues) down 23% from $0.7 million (9% of revenue) for the same period of the previous year.

For the six-month period ended September 30, 2019, research and development expenses totalled $1.4 million (10% of revenues) down 9% from $1.5 million (9% of revenue) for the same period of the previous year.

**Foreign Exchange Loss (gain):** the foreign exchange loss or (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.

Accordingly, for the second quarter ended September 30, 2019, the foreign exchange loss amounted to $99K compared with a gain of $84K for the corresponding period last year.

For the six-month period ended September 30, 2019, the foreign exchange loss amounted $113K compared with $311K for the first half of the previous year.

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

### 9.4 Financial Expenses

For the second quarter ended September 30, 2019, financial expenses net of interest income amounted to $280K compared with $128K for the same period a year ago.

For the six-month period ended September 30, 2019, financial expenses net of interest reached $373K compared with $262K for the corresponding period last year.

### 9.5 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 international operations in different countries and different foreign rules of taxation.

### 9.6 Net Loss

Net loss for the second quarter ended September 30, 2019, amounted to $0.9 million (basic and diluted net loss of $0.005 per share) compared with a net loss of $0.7 million (basic and diluted net loss of $0.004 per share) for the same period last year.

For the six-month period ended September 30, 2019, net loss amounted $1.5 million (basic and diluted net loss of $0.009 per share) compared with a net loss of $1.0 million (basic and diluted net loss of $0.006 per share) for the same period last year.

## 10. ADJUSTED EBITDA

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

For the second quarter ended September 30, 2019, adjusted EBITDA amounted to $114K compared with $127K for the same period last year.

For the six-month period ended September 30, 2019, adjusted EBITDA amounted to $0.3 million compared with $1.3 million year over year.

## 11. Liquidity, Capital Resources and Financing Sources

As at September 30, 2019, current assets amounted to $19.7 million compared with $24.5 million as at March 31, 2019.

Total working capital stood at $13.9 million as at September 30, 2019, compared with $12.1 million as at March 31, 2019. Accounts receivable, consisting primarily of trade accounts receivable, investment tax credits and commodity taxes receivable, fell to $5.1 million from $6.5 million as at March 31, 2019 due to timing of projects delivered during the last month of the quarter. Inventories rose to $7.7 million as at September 30, 2019, from $7.5 million as at March 31, 2019.

Current liabilities fell $6.6 million to $5.8 million as at September 30, 2019, from $12.4 million as at March 31, 2019. Accounts payable and accrued liabilities, included in current liabilities, were down $1.7 million to $4.9 million from $6.6 million as at March 31, 2019.

### 11.1 Operating Activities

For the six-month period ended September 30, 2019, cash flows used by operating activities totalled $1.4 million compared with $1.2 million in cash flows used for the same period of the previous year. This $0.2 million negative change resulted from a $0.7 million decrease in cash generated by operations before changes in working capital items and a $0.5 million decrease in cash used by changes in working capital items.

### 11.2 Investing Activities

For the six-month period ended September 30, 2019, cash flows used by investing activities amounted to $0.9 million compared with $0.5 million for the same period of the previous fiscal year.

### 11.3 Financing Activities

On July 31, 2019, the Corporation signed a three-year secured revolving credit facility of $5.0 million with the National Bank of Canada. This new credit facility matures in three years and bears interest, payable monthly, at an annual rate equal to National Bank of Canada's floating rate of interest applicable to commercial loans in Canadian dollars plus 2.25%. The credit facility is secured by a hypothec and security interests on all the assets (other than intellectual property) of the Corporation and its wholly-owned US subsidiary. The amount of the credit facility will gradually reduce over the term of the facility at the end of each quarter, such that the amount of the credit facility at the end of each year will be as follows: $4.5 million at the end of year one, $3.8 million at the end of year two, and $3.0 million at the end of year three.

An amount of $4.0 million was drawn from the credit facility at closing to reimburse, together with cash available, the former $5.0 million loan (plus accrued interest) which was maturing on February 5, 2020.

As at September 30, 2019, the effective interest rate of long-term debt was 6.2% (10.7% as at March 31, 2019) and the Corporation was in compliance with all debt covenants.

During the quarter and the six-month periods ended September 30, 2019, the interest expense on long-term debt charged to loss amounted to respectively $172 and $303, including an amount of $103 and $147 related to the accretion of interest [$128 and $253 including an amount of $40 and $78 accounted for as an accretion expense for the quarter and the six-month periods ended September 30, 2018].

### 11.4 Equity

Equity fell $1.4 million to $19.1 million as of September 30, 2019, from $20.5 million as at March 31, 2019. This decrease resulted mainly from the net loss of $1.5 million for the six-month period ended September 30, 2019.

## 12. QUARTERLY DATA

Operating results for each of the past eight quarters are shown in the table below:

| | 2020 | | 2019 | | | | 2018 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| **Revenue from the entertainment market** | | | | | | | | |
| *Theatrical entertainment:* | | | | | | | | |
| System sales | **1,782** | 1,741 | 999 | 1,896 | 2,688 | 2,197 | 1,236 | 3,537 |
| Rights for use, rental and maintenance | **1,811** | 2,434 | 1,831 | 2,073 | 2,102 | 2,605 | 1,967 | 2,482 |
| | **3,593** | 4,175 | 2,830 | 3,969 | 4,790 | 4,802 | 3,203 | 6,019 |
| *Commercial entertainment system sales* | **724** | 995 | 2,757 | 2,140 | 1,312 | 2,512 | 3,561 | 2,760 |
| *Home entertainment system sales* | **174** | 147 | 151 | 146 | 365 | 253 | 905 | 265 |
| **Total revenue from the entertainment market** | **4,491** | 5,317 | 5,738 | 6,255 | 6,467 | 7,567 | 7,669 | 9,044 |
| **Revenue from the simulation and training market** | **1,838** | 2,216 | 2,570 | 2,003 | 1,619 | 1,945 | 1,615 | 1,356 |
| **TOTAL REVENUE** | **6,329** | 7,533 | 8,308 | 8,258 | 8,086 | 9,512 | 9,284 | 10,400 |
| **Adjusted EBITDA*** | **114** | 215 | 267 | 515 | 127 | 1,157 | 906 | 1,114 |
| **Net income (loss)** | **(933)** | (606) | (551) | (177) | (748) | (229) | 12 | 51 |
| **Basic and diluted net income (loss) per share** | **(0.005)** | (0.003) | (0.003) | (0.001) | (0.004) | (0.001) | 0.000 | 0.000 |
| (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 and the reconciliation Table of adjusted EBITDA to net loss on page 7.

## 13. COMMITMENTS

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services. Due to IFRS 16, all major leases were accounted for in the consolidated balance sheets. The minimum payments for all other leases are as follows:

| (in thousands of dollars) | Leases | Other Commitments |
|---|---|---|
| 2019 | 9 | 58 |
| 2020 to 2022 | — | 65 |
| | **9** | **123** |

Reflecting IFRS 16, the Corporation's operating lease expenses decreased to $42K for the second quarter ($111K in 2019) and $84K for the six-month period of fiscal year 2020 ($240K in fiscal 2019). The Corporation has also pledged the office furniture and fixtures, in favour of the lessors.

## 14. FULLY DILUTED SHARE CAPITAL (NOVEMBER 14, 2019)

| | Class A common shares |
|---|---|
| Class A common shares outstanding | 175,950,573 |
| Convertible instruments | |
| Stock-options outstanding | 16,967,100 |
| Warrants | 2,000,000 |
| | **194,917,673** |

## 15. NEW ACCOUNTING STANDARD

Effective April 1, 2019, the Corporation adopted IFRS 16, Leases, which replaces IAS 17, Leases and its related interpretations. Under this new standard, most leases of the Corporation are now recognized in the consolidated balance sheets. The Corporation adopted IFRS 16 using the modified retrospective method with the date of initial application of April 1, 2019. Under this method, the standard is applied retrospectively, and the comparatives figures are not restated. Instead, the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of the deficit account in equity, if any.

Impact on transition to IFRS 16:

Total right-of-use assets and lease liabilities of $0.76 million were recorded as at April 1, 2019, with no impact on the deficit as at April 1, 2019. Instead of recognizing monthly rent expenses, the Corporation started to recognize interest expense for lease liabilities and depreciation expense for the right-of-use assets as of April 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated balance sheets at the date of initial application was 6.20%.

## 16. 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 26, 2019, which is available on www.sedar.com.

## 17. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting aims to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the second quarter ended September 30, 2019, there were no changes in the Corporation's internal control over financial reporting that materially affected, or are likely to materially affect, the Corporation's internal control over financial reporting.

## 18. CONTINUOUS INFORMATION AND ADDITIONAL DISCLOSURE

This MD&A was prepared as of November 14, 2019. Additional information can be found on the SEDAR website at www.sedar.com.

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