



**D-BOX TECHNOLOGIES INC.**  
**(the “Corporation”)**

**ANNUAL INFORMATION FORM**

For the fiscal year ended March 31, 2019

**June 26, 2019**

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## GENERAL INFORMATION

This annual information form is dated June 26, 2019. Unless otherwise indicated, the information contained herein is as of March 31, 2019 and all amounts are expressed in Canadian dollars.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain information included in this annual information form may constitute “forward-looking information” within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Corporation does not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. 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 that the Corporation’s objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Corporation cannot guarantee that any forward-looking information will materialize. Forward-looking information is provided in this annual information form 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 annual information form is based on a number of assumptions that the Corporation believes were reasonable on the day it provided the forward-looking information. Factors that could cause actual results to differ materially from the Corporation’s expectations expressed in or implied by the forward-looking information include: general economic conditions; changes in product costs and supply channels; ability to develop profitable strategic alliances; foreign currency fluctuations; customer and credit risk, including the concentration of revenues with certain customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; protection of intellectual property, changes in the regulatory environment; continued access to capital resources and the related costs of borrowing; changes in assumptions in the valuation of intangible assets; and ability to attract and retain key executives and a highly-qualified work force. 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 throughout this annual information form and, in particular, under “Risk Factors”.

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.

## CORPORATE STRUCTURE

### NAME, ADDRESS AND INCORPORATION

D-BOX Audio Inc. ("**D-BOX Audio**") was incorporated on December 15, 1992 pursuant to the *Companies Act* (Québec) under the name 2967-8141 Québec Inc. On February 16, 1994, its Articles were amended to change the corporate name to D-BOX Audio Inc. On September 1, 2000, all of the issued and outstanding shares of D-BOX Audio were acquired by way of a reverse takeover by Altitude Venture Capital Corporation/Corporation de capital de Risque Altitude ("**Altitude**"), a junior capital pool company listed on the TSX Venture Exchange. On April 1, 2011, the Corporation graduated from the TSX Venture Exchange to the Toronto Stock Exchange.

Altitude was incorporated on June 19, 1998 pursuant to the *Canada Business Corporations Act*. On September 28, 1998, the articles of Altitude were amended to add certain borrowing powers. Following the reverse takeover of D-BOX Audio, the Articles of Altitude were amended on November 22, 2000 to change the corporate name to D-BOX Technologies Inc./Technologies D-BOX Inc. D-BOX Audio was dissolved on August 30, 2001 and its assets and operations were transferred to its parent company. The Articles of the Corporation were again amended on August 19, 2004 to give the Board of Directors the authority to appoint additional directors in compliance with the *Canada Business Corporations Act*.

The Corporation has two subsidiaries. D-BOX USA Inc. ("**D-BOX USA**") was incorporated under the laws of the State of Delaware on May 16, 2006 and is a wholly-owned subsidiary of the Corporation. D-BOX Entertainment Technology (Shanghai) Co. Ltd. ("**D-BOX China**") was constituted as a wholly foreign-owned company on August 22, 2016 under the laws of the People's Republic of China. Unless the context indicates otherwise, in this annual information form "**D-BOX**" refers to the Corporation together with D-BOX USA and D-BOX China, and also reflects the business originally carried on by D-BOX Audio.

The Corporation's headquarters are located at 2172 de la Province Street, Longueuil, Québec, J4G 1R7. At March 31, 2019, D-BOX had 134 employees compared with 132 on March 31, 2018.

## DESCRIPTION OF THE BUSINESS

### OPERATIONS

D-BOX designs, manufactures and commercializes cutting-edge motion systems intended for the entertainment and simulation and training markets. With its unique and patented technology, D-BOX produces motion effects specifically programmed for each visual content, which are sent to a motion system integrated either within a platform, a seat or various types of equipment. The computer-programmed software motion effects (the "**D-BOX Motion Code**") are designed by a team of professional motion designers located at the Corporation's Montreal headquarters, offices in Burbank, California and offices in Beijing, China. The D-BOX Motion Code is precisely synchronized with the on-screen visual, thus creating a unique realistic immersive experience. Motion designers are trained to master highly specialized skills that are required to meet the quality standards established by D-BOX.

The Corporation's products are all designed at the Corporation's headquarters. The actuators are assembled by D-BOX. Depending on the customer's needs, some finished products are assembled and branded by D-BOX, and some other finished products are assembled and branded by customers, partners and integrators.

As a result of agreements entered into with leaders in both the entertainment and simulation and training markets, the Corporation's motion technology is emerging as the standard that is recognized around the world by all key players.

The Corporation's revenue streams mainly consist of:

1. the sale or lease of D-BOX motion systems including motion seats, motion controllers and electronic interfaces or servers;
2. the licensing of the D-BOX Motion Code in commercial theatres and entertainment centres, which are 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. 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")).

The Corporation focuses on two distinct markets for its motion systems: the **entertainment market** and the **simulation and training market**.

## **HISTORY OF THE CORPORATION OVER THE LAST THREE FISCAL YEARS (APRIL 1, 2016 TO MARCH 31, 2019)**

### **Corporate**

On August 5, 2015, the Corporation entered into a Loan Agreement with the Caisse de dépôt et placement du Québec ("CDPQ") for an aggregate amount of five million Canadian dollars (CAD \$5,000,000), which loan bears interest at a rate between 7% and 10%, matures on February 5, 2020, and is secured by all moveable assets of the Corporation, exception made of its intellectual property portfolio. In connection with this loan, the Corporation issued CDPQ 4,500,000 share purchase warrants for 4,500,000 Class A Class A common shares of the Corporation having an exercise price of CAD \$0.50 to be exercised on or before August 5, 2019.

On December 18, 2015, the Corporation closed a non-brokered private placement with JC Asset Management Group (Canada) Inc. (formerly known as Gold Finance (Canada) Asset Management Limited) of 11,111,111 units worth CAD \$0.45 each, for an aggregate consideration of five million Canadian dollars (CAD 5,000,000). Each of the units is comprised of one Class A common share and three-quarters of a Class A share purchase warrant. Each full warrant entitled its holder to acquire one additional Class A common share of D-BOX at a price of \$0.60. All 11,111,111 units expired unexercised on June 18, 2017.

On December 22, 2015, the Corporation issued 2,000,000 common share purchase warrants to Cinemark USA, Inc., with each warrant entitling the holder to acquire one Class A common share of D-BOX at a price corresponding to the volume weighted average price of the Class A common shares of D-BOX on the Toronto Stock Exchange for the five trading days prior to the exercise date of the warrants. The warrants vested at the same rate as the D-BOX deployment in 80 new screens across 40 theatres over 24 months, and will be valid for a period of seven years ending on December 22, 2022.

On August 22, 2016, D-BOX China, a wholly foreign-owned company, was created under the laws of the People's Republic of China and is operational in the Chinese market.

### **Entertainment Market**

In the last three fiscal years, the Corporation has expanded its commercial theatre offering by installing D-BOX motion systems in full movie auditoriums, such as with Shanghai Bestar Cinemas Management in China, Ster-Kinekor in South Africa and Maya Cinemas in the United States. It has also installed its equipment in a significant number of auditoriums with major exhibitors such as Cinemark (US and Latin America) and Cineplex (Canada).

A total of 640, 684 and 749 screens worldwide were equipped with D-BOX motion systems or in backlog in commercial theatres as of March 31, 2017, 2018 and 2019, respectively.

By developing a recliner motion base that can be integrated into several different brands of recliners, D-BOX was able to provide a product that caters to a new trend of moviegoers who want to experience D-BOX motion systems in a VIP auditorium. Cinemark and Cineplex were the first exhibitors to deploy D-BOX motion systems integrated into recliners in the first quarter of fiscal year 2018.

In the third quarter of fiscal year 2016, D-BOX started offering a virtual reality (“VR”) solution to commercial theatres as well as location-based entertainment centres that wanted to find alternative ways to attract customers. Since then, the Corporation produced immersive motion for (i) an action-packed scene from the movie *Goosebumps*, (ii) the interactive VR experience *The Martian*, (iii) the Rabbids Amusement Center by Ubisoft, (iv) *Raising a Rukus* by The Virtual Reality Corporation, and (v) car racing simulators at ICAR in Quebec. It is also worth noting that a recent scientific study conducted in collaboration with HEC Montreal’s Tech3Lab concluded that D-BOX motion systems help reduce the motion discomfort commonly associated with VR. In October 2018, D-BOX and Secret Location launched a partnership to develop a library of VR content intended for location-based entertainment centres.

In the theme park and attraction sub-market, the Corporation provided immersive motion to (i) the NFL Experience Times Square in collaboration with Cirque du Soleil and the NFL, (ii) The Flyer – San Francisco, the world’s first 3D flying theatre at Pier 39, in collaboration with Triotech, (iii) the biggest 4D dome theatre in the world at the Shinhwa theme park in South Korea and the Antibes (France) Marineland 4D cinema with CL Corporation.

In addition to the above, D-BOX continued to offer high-end motion systems, including the Home Entertainment Motion Controller (HEMC™), for home entertainment use such as watching movies and TV series as well as gaming in the comfort of customers’ homes.

### **Simulation and Training Market**

Over the years, the Corporation has developed many business partnerships with Original Equipment Manufacturers (OEMs), integrators and resellers, thus expanding its reach into several sub-markets, such as flight simulation, heavy equipment/cranes, driving/racing and others. The Corporation has developed motion systems adapted to the needs of other potential sub-markets, such as longer stroke actuators and modular motion systems with additional degrees of freedom, which allow D-BOX to target a wider array of customers.

### **CORPORATE STRATEGY**

As a pioneer in its field, the Corporation has been developing and fine-tuning advanced motion systems for two decades. With its considerable technological advance, D-BOX now believes it stands as the global reference in the creation and design of immersive motion systems for both the entertainment and simulation and training markets. The Corporation is constantly developing new products to meet the needs of its clientele and maintain its leading position in the field of motion simulation.

### **Entertainment Market**

The Corporation has established privileged relationships and developed strong credibility with major studios in order to provide a wide array of content to its commercial theatres. D-BOX believes that successful motion pictures have a direct impact on the number of D-BOX tickets sold and the box office revenue per D-BOX equipped theatres. This acts as a motivational agent to:

1. accelerate the deployment of its technology with new commercial theatre exhibitors that want to add a distinctive draw to their offerings;
2. facilitate the sale of its technology to current exhibitors that may want to equip more than one of their complexes or equip more than one screen within the same complex;
3. generate motion system sales to the clientele of the high-end home entertainment sub-market, who want to experience D-BOX in the comfort of their homes;
4. showcase the technology to potential customers in the simulation and training market;
5. encourage video game users to purchase seats equipped with D-BOX motion systems thereby allowing them to add a new level of immersion to their gaming experience;
6. create partnerships with content providers and integrators that can generate sales of D-BOX products to location-based entertainment centres.

The Corporation believes the entertainment market is an excellent venue to showcase its technology to the largest number of people possible. The Corporation generates significant revenue from licensing rights for the use of its technology based

on the premiums charged for admission tickets, the sale or rental of motion systems and revenue from motion system maintenance. This strategy drives a significant increase in brand awareness.

In addition to its activities in the commercial theatre sub-market, D-BOX offers motion system solutions for high-end home entertainment (home theatre and gaming) as well as themed entertainment (arcades, virtual reality, amusement parks, museums and planetariums).

### **Simulation and Training Market**

The simulation and training market benefits from the significant increase of the overall D-BOX brand awareness generated by the entertainment market, which also stimulates customer interest for the audio video motion experience thus bolstering demand for D-BOX in other sub-markets.

With respect to industrial simulation users, the Corporation continues to fulfil its mission to sell products under its own banner and OEM brands while leveraging a network of integrators and resellers. It is also adapting its products to address specific requests of manufacturers and OEMs to tap into new markets.

### **PRODUCTS**

The unique D-BOX motion technology, when combined with image and sound, creates and reinforces an unmatched realistic immersive experience.

Three components produce motion synchronized with image and sound:

1. Software motion effects programmed 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 amongst other things of proprietary electromechanical actuators built into a platform, seat, or other type of equipment.

The majority of the hardware components are standard and widely available, but some are manufactured by only a few suppliers. By ordering large volumes of components, the Corporation is able to negotiate pricing, availability and other conditions with each supplier.

Over the past years, other products and technologies have been introduced by companies that target some of the same customers as D-BOX in the theatrical sub-market. In other areas of the entertainment market, and in the simulation and training market, there are other companies that manufacture actuators that are used in simulation systems.

On the strength of twenty years of research and development resulting in vast worldwide expertise, D-BOX believes it has developed a long-standing significant edge over its competitors by offering to its customers reliable high-quality and high-fidelity products that are easy to install.

### **Entertainment Market**

The Corporation adapts its above-mentioned products to the customers' needs in each sub-market. In the case of commercial theatres, the D-BOX motion systems can be integrated into a seat, recliner or platform. In the home entertainment sub-market (home theatre and gaming), the D-BOX motion systems can be integrated into a seat, recliner or platform. As for the themed entertainment sub-market, the D-BOX motion systems can be sold to OEMs who integrate them into their own products, or they are integrated by D-BOX into a seat, platform or any other product.

### **Simulation and Training Market**

Almost all of the Corporation's products that are intended for the simulation and training market are sold as standalone products to OEMs and integrators who are in charge of incorporating the D-BOX products into their own products which are then marketed and distributed under their respective brands. D-BOX continues to focus its efforts on developing partnership programs with OEMs.

## **MARKETING ACTIVITIES**

### **Entertainment Market**

In order to promote its products and technology, the Corporation primarily conducts the following marketing activities:

1. Participation at major trade shows and conferences worldwide in each entertainment sub-market;
2. Promotion of the Corporation through banners, lighted posters, demonstration units and advertising clips screened in commercial theatres where D-BOX is available;
3. Organization of promotional events and activations at commercial theatres as well as sports, technology and entertainment events;
4. Use of social media platforms, the Corporation's website and other industry partners' websites to promote the D-BOX experience;
5. Production of market research to gather information on customers' appreciation of the D-BOX experience;
6. Creation of promotional materials for each entertainment sub-market.

### **Simulation and Training Market**

Since the Corporation does business mainly with Original Equipment Manufacturers (OEMs) in the simulation and training market, the majority of the marketing activities targeting these sub-markets are conducted by the Corporation's OEM partners because they are in charge of integrating the D-BOX actuators into products marketed under their own brands. D-BOX also participates in targeted trade shows for the purpose of demonstrating all the potential uses of the D-BOX technology in order to develop new partnerships with OEMs, integrators and resellers. The Corporation also promotes its technology to OEMs via promotional videos as well as promotional materials that it disseminates via strategically-chosen channels.

## **DISTRIBUTION**

### **Entertainment Market**

The D-BOX software products, including the D-BOX Motion Code, are either embedded in the film, video game, virtual reality content or other content distributed by a third party, or they are electronically distributed by D-BOX to its customers, depending on the sub-market and the customers' needs.

The D-BOX hardware products are directly distributed by D-BOX to its customers, or they are distributed via local resellers who can also provide technical assistance.

### **Simulation and Training Market**

Almost all of the Corporation's products that are sold as standalone products to OEMs and integrators are marketed and distributed under their respective brands.

## **INTELLECTUAL PROPERTY**

D-BOX's technology is protected by one hundred and sixty-two (162) patent applications filed worldwide, including ninety-six (96) patent applications that were approved by competent authorities, and sixty-six (66) that are pending. The Corporation files its applications for registration strategically, depending on the jurisdiction of filing, marketing and the patent's dominance.

The patented aspects of D-BOX's technology fall into three distinct families of innovations:

- a. **Electro-mechanical actuators:** optimization of joints; coupling; linear actuators; swivel; ball screws;
- b. **Hardware:** platform attached to a piece of furniture, hubs and chain links between motion systems; motion code controller / decoder; LCD screen on theatrical seating products;
- c. **Software / methods:** synchronization of motion code; use of existing sound signal encoding format to provide motion signal; distribution of the motion code to a number of motion platforms simultaneously; method of selling premium tickets for motion experience in movie theatres; method of optimizing the rendering of the motion experience (theatrical, simulation, training, gaming).

The trade-marks D-BOX, MOVE THE WORLD, MOTION ARCHITECTS, LIVE THE ACTION, Synchro Cinema, HEMC, D-BOX MOTION CODE, FEEL IT ALL and D-BOX HIGH-FIDELITY MOTION, whether in text or graphical form, are owned by the Corporation and in most cases are registered or in the process of being registered in Canada and in the countries or territories in which these trade-marks are used.

All aspects of the D-BOX motion effects are protected by copyright.

## **RESEARCH AND DEVELOPMENT**

D-BOX is constantly monitoring the technological landscape in the field of motion systems. D-BOX's major development efforts are aimed at offering new technological solutions at a competitive price intended for a rapidly growing list of sub-markets in the entertainment and simulation and training markets. Over the last years, the Corporation has launched new products that respond to the needs of the Corporation's diverse clientele, such as the motion base for recliners, the Home Entertainment Motion Controller (HEMCTM) which is capable of handling any content regardless of the source, the longer stroke actuator and the modular motion system with additional degrees of freedom. In addition, D-BOX is continuously developing new software tools to optimize and automate its operations.

### **Entertainment Market**

The Corporation annually devotes substantial resources to developing and improving its products. These advancements have made it possible for the Corporation to release products for a variety of applications for the commercial theatre, home entertainment and themed entertainment sub-markets. These initiatives also focus on adapting the system to various international markets in order to comply with local standards and certifications required in each targeted country. Concurrently, D-BOX maintains ties with the largest video game designers in the world, which provide content to be coded as required. D-BOX continues to invest in research and development to develop new products to stimulate demand from new markets.

In the home entertainment sub-market, D-BOX introduced a Home Entertainment Motion Controller (HEMCTM) which is capable of handling any content regardless of the source. D-BOX introduced the same technology in commercial theatres.

### **Simulation and Training Market**

In this market, as in the entertainment market, the Corporation constantly strives to reduce manufacturing costs for its products for various applications for the OEM, integrator and reseller markets. Currently, research initiatives are focused mainly on the development of new products. D-BOX continues to develop new ways to incorporate D-BOX motion systems into its customers' products in order to open new sub-markets.

## **PRODUCTION AND SERVICES**

The final assembly of all of the Corporation's motion systems is conducted at its headquarters by its production staff. Certain products marketed by manufacturers of armchairs, OEMs and integrators that include D-BOX motion systems are assembled in their facilities. The Corporation rents a total of 32,339 sq. ft. of space, comprised of office space, warehouse space and space for production and research and development. The premises are leased until October 2021.



With respect to the entertainment market, customer service is provided by the Corporation or by third party service providers. A standard warranty is offered on all D-BOX products.

The Corporation is able to perform remote monitoring, software and firmware upgrades as well as general technical support to systems that are connected to the internet, depending on service agreements in place with customers.

## **RISK FACTORS**

Investors should carefully analyze the following risk factors in addition to the other information contained in this Annual Information Form. These risks and uncertainties are not the only ones that could affect the Corporation. Further risks and uncertainties that are currently unknown or that the Corporation deems immaterial could potentially have an impact on the commercial activities of the Corporation and lower the price of its shares. The materialization of any of the following risks may have an impact on the activities of the Corporation and a negative impact on its financial position and operating results. In that event, the price of the Corporation's shares may decrease.

### **Future Funding Requirements**

Should the future development and demand grow considerably and in an unplanned manner, the Corporation could require additional capital either from the issuance of shares and the sale of debt or equity securities. There can be no assurance that the Corporation will be able to raise the required capital to continue growing, developing and marketing its technology. Failure by D-BOX to raise additional capital could adversely affect its activities, revenues, financial position and operating results.

### **Economic Conditions**

Although the product line developed and marketed by the Corporation makes its technology increasingly affordable, demand for such products is exposed to fluctuating economic conditions. Consequently, any slowdown in economic growth could reduce demand for D-BOX's products and adversely affect its activities, revenues, financial position and operating results.

### **Political, social and economic conditions**

Present in forty-two (42) countries and relying on consumers' discretionary income in the entertainment market, the Corporation's activities, revenues, financial position and operating results could be adversely affected by certain political, social and economic conditions, such as an economic downturn, political uncertainty, terrorism and natural disasters.

### **Strategic Alliances**

The rapid deployment of the Corporation's technology as well as its future growth depend in part on its ability to develop alliances with strategic partners. Failure by D-BOX to develop such strategic alliances could adversely affect its activities, revenues, financial position and operating results.

### **Access to Content**

Commercial deployment of the Corporation's products in commercial theatres depends, in part, on its ability to obtain content on an ongoing basis. Failure by D-BOX to maintain a continuous flow of content could adversely affect its activities, revenues, financial position and operating results.

### **Performance of Content**

The Corporation's success, particularly in the entertainment market, depends upon the performance of the content produced by studios and content providers in general. If content offerings in any given period fail to generate sufficient interest among customers of such content, this situation could adversely affect the Corporation's activities, revenues, financial position and operating results.

## **Distribution Network**

Growth in the Corporation's business depends in part on its ability to develop well targeted marketing and distribution channels, increase its number of points of sale and attract new customers worldwide. Failure by D-BOX to do so could adversely affect its activities, revenues, financial position and operating results.

## **Exchange Rate between the Canadian Dollar and U.S. Dollar**

Since most of the Corporation's sales are made in U.S. dollars and the majority of its expenses are incurred in Canadian dollars, its revenues and profitability are affected by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. The ability for the Corporation to adjust selling prices for its products to reflect exchange rate fluctuations is limited. Accordingly, whenever necessary, the Corporation protects itself partially from exposure to fluctuations in the U.S. dollar by entering into agreements under which it sets a fixed exchange rate relative to the Canadian dollar.

## **Manufacturing Costs**

The Corporation is continually seeking out ways to reduce its manufacturing costs, which allows it to further reduce selling prices for its products, increase its business volume thereby improving profit margins. The Corporation's ability to reduce manufacturing costs depends on successful research and development, component purchasing volumes generating savings of scale and fluctuations in material costs.

## **Competition**

The D-BOX motion technology rests on a combination of patents, copyrights, trademarks and other intellectual property protection laws. Other products and technologies have been, and could eventually be, introduced in the market place by companies that target some of the same customers as D-BOX. These competitors could have significant financial resources to develop and commercialize their products, which could adversely affect D-BOX's activities, revenues, financial position and operating results.

## **Concentration of Clients**

The Corporation sold 11% and 10% of its products to two clients in the entertainment market during the fiscal year ended March 31, 2019. These customers will remain significant in the coming fiscal years. If these customers were to reduce, postpone or discontinue current or planned purchases of the Corporation's products, such a change could adversely affect the Corporation's activities, revenues, financial position and operating results.

## **Credit Risk**

At March 31, 2019, one client accounted for 14% of total trade accounts receivable and 54% of trade accounts receivable were 90% insured. The Corporation evaluates the solvency of its customers to limit the amount of credit offered and sets if necessary a provision for bad debts. The Corporation currently uses insurance coverage to minimize its risk.

## **Reputational Risk through Social Media**

Social media offers a widely accessible platform to promote the Corporation's activities but possesses inherent risks that can harm its reputation. More specifically, social media and other forums for discussion establish a multilateral mode of communication that allows users to communicate their opinions. Although the Corporation believes that it operates in a manner that is respectful to all stakeholders and that it takes care of protecting its image and reputation, the Corporation does not ultimately have direct control over how it is perceived by others and its reputation can be damaged through negative publicity expressed by other users, whether true or not. Reputation loss may harm investor confidence, increase challenges in developing and maintaining community relations and thereby have a material adverse effect on D-BOX's business, revenues, financial position and operating results.

## **Dependence on Suppliers**

Product manufacturing at D-BOX depends largely on the availability of several components and products. Their delivery must be timely and they must correspond to the quality, quantity and cost criteria established by the Corporation. The majority of these are standard components, but some are manufactured by only a few suppliers. The Corporation believes

it would be able to be supplied by other manufacturers were the current suppliers to limit or discontinue production of components for its products. However, losing a supplier could adversely affect D-BOX's activities, revenues, financial position and operating results.

### **Warranty, Recalls and Lawsuits**

The Corporation is exposed to costs related to warranties, product recalls, and potentially lawsuits or other claims, particularly if its products were to prove defective, which would adversely affect the Corporation's business development and reputation. Although the Corporation currently maintains product liability insurance, its obligation to pay a claim under this liability, if the Corporation is found liable, may lead to financial obligations beyond the amount of the insurance coverage or which may be excluded from such insurance coverage, and which may have a material adverse effect on D-BOX's business, revenues, financial position and operating results.

### **Intellectual Property**

The Corporation's intellectual property rights could be incomplete, invalid, skirted, challenged, or rendered unenforceable. In addition, such intellectual property rights in the process of being approved could be denied or not offer the desired protection. Lawsuits could be required to enforce intellectual property rights of D-BOX. These disputes could be very expensive, with no guarantee of success. The loss of an intellectual property right could adversely affect D-BOX's activities, revenues, financial position and operating results.

### **Security and Management of Information**

The integrity, reliability and security of information is critical to the Corporation's strategic operations. The Corporation collects and stores, on a regular basis, sensitive data including intellectual property, proprietary business information and data with respect to suppliers, employees, clients and other partners. The Corporation recognizes that security breaches or other disruptions could expose the Corporation to liability and harm its reputation. Despite important security measures, the Corporation's information technology and infrastructure may be vulnerable to unforeseen attacks by hackers, or breached due to employee error, malfeasance or other disruptions. In response to this risk, the Corporation has employees whose role it is to monitor information technology and processes to ensure this risk is minimized.

### **Dependence on Key Personnel and Labour Relations**

D-BOX's success relies on its ability to attract and retain a highly qualified work force. Failure to retain qualified staff and the loss of key employees could compromise the pace and success of product development.

## **DIVIDENDS**

The Corporation has never paid any dividends and currently intends to reinvest all its future earnings to finance the growth of its business. As a result, the Corporation does not intend to pay dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend on the Corporation's financial condition, operating results and capital requirements as well as on any other factors that the Board of Directors may deem relevant.

## MARKET FOR SECURITIES

The Corporation's Class A common shares are listed on the Toronto Stock Exchange under the symbol "DBO".

The following table sets forth the shares' highest and lowest sales prices and the trading volume on a monthly basis from April 1, 2018, to June 25, 2019.

Year	Month	Price Range		Volume
		High (\$)	Low (\$)	
2018	April .....	0.25	0.21	1,855,673
	May .....	0.295	0.25	2,061,036
	June.....	0.27	0.225	1,765,609
	July .....	0.255	0.205	1,979,939
	August .....	0.25	0.215	1,617,722
	September.....	0.225	0.185	2,280,828
	October .....	0.225	0.18	1,499,357
	November.....	0.22	0.155	3,173,643
	December .....	0.21	0.145	2,079,818
	January.....	0.185	0.16	1,115,149
	February .....	0.175	0.15	1,653,405
	March.....	0.165	0.14	1,794,259
2019	April .....	0.18	0.145	2,056,521
	May .....	0.18	0.15	944,267
	June (to June 25, 2019) .....	0.17	0.15	958,102

## CAPITAL STRUCTURE OF THE CORPORATION

### DESCRIPTION OF CAPITAL STRUCTURE

The Corporation's authorized share capital consists of an unlimited number of Class A common shares without par value and an unlimited number of Class B preferred shares issuable in series.

The Class A common shares of the Corporation entitle holders thereof to one vote per share at meetings of the Corporation's shareholders. Subject to the prior rights of any other shares ranking senior thereto, holders of Class A common shares are entitled to receive any dividends that may be declared by the Board of Directors of the Corporation and any return of capital in the event of the Corporation's liquidation or dissolution or any other distribution of the Corporation's assets for the purpose of winding up its affairs. At March 31, 2019, a total of 175,950,573 Class A common shares were issued and outstanding.

The Class B preferred shares may be issued in or more series carrying such rights and subject to such conditions as may be determined by the Board of Directors. There are no voting rights attached to the Class B preferred shares, except as prescribed by law. The Class B preferred shares will rank senior to the Class A common shares with respect to the payment of dividends and the return of capital in the event of the Corporation's liquidation or dissolution or any other distribution of the Corporation's assets for the purpose of winding up its affairs. No Class B preferred shares are currently issued and outstanding.

## DIRECTORS AND EXECUTIVE OFFICERS

### DIRECTORS

At the date hereof, the Board of Directors consists of seven (7) directors. Each director holds office until the end of the next annual meeting of shareholders or until the election or nomination of his successor, unless he or she resigns or his or her office becomes vacant by removal, death or other cause. The following table sets out the name of each of the current directors, their principal occupations and the year in which they first became directors of the Corporation.

Name and Municipality of Residence	Position	Principal Occupation	First Year as Director
Jean-René Halde <sup>(1)</sup> St-Laurent, Québec, Canada	Chairman of the Board of Directors	Corporate Director	2018
Louis Bernier <sup>(2)</sup> Ville Mont-Royal, Québec, Canada	Director	Partner Fasken Martineau DuMoulin LLP	2014
Brigitte Bourque <sup>(2)</sup> Montréal, Québec, Canada	Director	Executive Coach Groupe Pauzé	2019
Gary M. Collins <sup>(2)</sup> Vancouver, British Columbia, Canada	Director	Consultant and Corporate Director	2015
Robert Copple <sup>(1)</sup> Frisco, Texas, United States of America	Director	Consultant and Corporate Director	2017
Claude Mc Master Saint-Lambert, Québec, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Corporation	2006
Élaine Cousineau Phénix <sup>(1)</sup> Verdun, Québec, Canada	Director	President Phénix Capital Inc.	2004

(1) Member of the Audit Committee.

(2) Member of the Compensation and Corporate Governance Committee.

The directors of the Corporation have held the following principal occupations during the last five years:

Jean-René Halde is a corporate director. He was most recently President and CEO of the Business Development Bank of Canada from 2005 until he retired in 2015. He held chief executive roles in a number of leading companies such as Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. He is presently a director of TD Bank Group (where he also sits on the audit committee), Airbus Canada Management GP Inc., Chairman of École de Technologie Supérieure, a large engineering school, and an advisor or director to a number of private companies. Over the course of his long and distinguished career, Mr. Halde was Chairman of the Conference Board of Canada, the Montreal Heart Institute and the Grocery Products Manufacturers of Canada. He served on the boards of a number of private companies, not-for-profit organizations, and public companies such as RONA, Provigo, Gaz Métropolitain and CCL Industries. Mr. Halde has a MBA from the Harvard Business School, and a MA in economics from the University of Western Ontario. He also holds the ICD.D. designation from the Institute of Corporate Directors.

Louis P. Bernier is a partner at Fasken Martineau. He specializes in labour and employment law, providing legal counsel on all employment-related matters and he has also accumulated a vast wealth of experience in all aspects of work organization and operations management, particularly in the course of restructurings and subcontracting, sale and merger transactions. He also specializes in administrative and constitutional law, especially as these relate to extraordinary remedies and issues arising from the charter of rights and freedoms. He frequently advises company directors and officers on strategic matters including ethics issues, codes of ethics and corporate governance. Mr. Bernier is often called upon to plead before various organizations and courts of both provincial and federal jurisdiction. He also deals with cases involving personal information protection. He is a member of the International Society for Labour and Social Security Law and a member of the board of directors and executive committee of the Fédération des chambres de commerce du Québec, where he serves as chairman of the labour committee. He is recognized by The Best Lawyers in Canada as an expert in labour and employment law. He is also recognized by Lexpert in employment law (repeatedly recommended) and labour law (consistently recommended).

Brigitte Bourque has been an executive coach since 2002 and co-founded Pauzé Coaching in 2010. Over the last 17 years, she has coached executives and professionals to help them hone their skills and maximize their potential. She is also specializing in retirement coaching. Her career spans both the public and private sectors. After starting her career as a marketing consultant for Touche Ross, she served as Chief of Staff for the Quebec Environment Minister and Special Advisor for the Quebec Premier's office. She was also Assistant Deputy Minister at the Communications Department from 1989 to 1994. Between 1996 and 2000, she was Vice-President, Corporate Human Resources and Employee Communications at Teleglobe, an international telecommunications carrier. She has served on the boards of Télé-Québec, the Quebec Breast Cancer Foundation, and is currently on the board of Executives Available, a non-profit organization.

She is involved as an expert with Femmessor, on organization financing and helping women entrepreneurs. She holds a MBA from Laval University, a diploma in Human Resources Management from the Richard Ivey School of Management and is a professional certified coach (PCC) from the International Coach Federation.

Gary M. Collins is a Senior Advisor with Lazard, an investment bank. Previously he served as the President of Coastal Contacts Inc., the world's largest e-commerce provider of direct to consumer contact lenses and prescription eye glasses from July 2012 to May 2014 when the company was sold to Essilor International. Mr. Collins has served as a member of the Board of Chorus Aviation Inc. since 2008, of Fiera Capital Corporation since 2018 and StuartOlsen Inc. since May 2019. He previously served as a Director of Liquor Stores North America Ltd. from 2006 to 2018, as a Director of Rogers Sugar Inc. from 2008 to 2012 and as a Director of Catalyst Paper Corporation from 2005 to 2010. Mr. Collins rejoined the Board of Rogers Sugar Inc. in 2017. Mr. Collins was President and CEO of Harmony Airways from December 2004 to December 2006, and from April 2007 until May 2012. He was the Senior Vice President of Belcorp Industries Inc. Previously Mr. Collins spent 13 years as a Member of the British Columbia Legislative Assembly, including serving as British Columbia's Minister of Finance from 2001 to 2005.

Robert D. Copple was the President and Chief Operating Officer of Cinemark Holdings, Inc. ("Cinemark") until March 2016. Cinemark is a publicly-owned theatre company (NYSE: CNK) operating in 42 states in the United States and twelve countries in Central and South America, with more than \$2.8 billion in annual revenues. Prior to being promoted to President, Mr. Copple was the Chief Financial Officer of Cinemark. His 23 years of experience in the theatre industry with Cinemark provides him with an understanding of both the financial and the operational implications of deriving and executing strategic decisions. He has negotiated multiple acquisitions, dispositions and industry partnerships with other exhibitors. As Chief Financial Officer, he negotiated the sale of a majority interest in Cinemark to a private equity group and later was responsible for executing all aspects of Cinemark's initial public offering (IPO). During Mr. Copple's tenure at Cinemark, he served as a director on various operating industry partnerships owned primarily by the three largest U.S. theatre companies. Prior to joining Cinemark, Mr. Copple worked for Deloitte & Touche, LLP from 1982 to 1993. Mr. Copple holds a B.B.A. and Master's degree, both in accounting, from Baylor University in Waco, Texas and is a Certified Public Accountant (CPA). He currently serves on the board of Flix Brewhouse, LLC, a private company in the movie exhibition business. He also serves on the President's Leadership Council of Baylor University.

Claude Mc Master joined the Corporation in 2003 as Chief Financial Officer and Executive Vice-President, and was appointed President and Chief Executive Officer in 2005. Previously, he worked at Ernst & Young as Vice-President Mergers and acquisitions. In 1994, Mr. Mc Master founded and headed AVINGCO, a management consulting firm that was sold to Arthur Andersen in 1998 where he became a partner in charge of the high tech sector for the province of Quebec. Mr. Mc Master holds bachelor's and master's degrees in engineering from Montreal's École Polytechnique, a bachelor in business administration from Laval University, and a certificate in law from University of Montreal. He has completed executive programs in global financial management, advanced corporate finance and corporate governance from renowned institutions such as Harvard Business School, INSEAD and McGill University. He currently serves on the boards of D-BOX Technologies, QG100, a Québec association of Global business CEOs and Montreal Heart Institute, and he served on the board of the Business Development Bank of Canada (BDC) from March 2015 to May 2019.

Élaine Cousineau Phénix holds a Bachelor of Arts with Honours from the Collège Jean-de-Brébeuf, is a Fellow of the Canadian Securities Institute and a certified corporate director (CCD) from the Collège des administrateurs de sociétés. Ms. Cousineau Phénix counts over twenty-five (25) years of experience in the Canadian capital market, especially as Senior Vice-President, Syndication, at Lévesque, Beaubien, Geoffrion Inc. (now National Bank Financial Inc.) and as Senior Vice-President, Capital Development at the Montreal Exchange. Since 1999, Ms. Cousineau Phénix is President of Phénix Capital Inc. acting as consultant in assets management for institutional and private clients. Ms. Cousineau Phénix is currently chair of the board of director for Sidex LP; chair of the Investment Committee of Barreau du Québec Employee Pension Fund; member of the Independent Audit Committee of the Natural Sciences and Engineering Research Council of Canada and the Social and Sciences and Humanities Research Council of Canada. In 2012, Ms Cousineau Phénix was awarded Queen Elizabeth II Diamond Jubilee Medal by the Investment Industry Association of Canada as recognition to individuals who, during their professional life, made an impactful contribution to the Canadian investment industry.

## **EXECUTIVE OFFICERS**

The following table sets out the name of each executive officer, their current position with the Corporation as well as the date at which they first became officers of the Corporation:

<b>Name and Municipality of Residence</b>	<b>Current Position</b>	<b>Executive Officer Since</b>
Claude Mc Master Saint-Lambert, Québec, Canada	President, Chief Executive Officer	September 2003
Jean-François Lacroix Boucherville, Québec, Canada	Chief Financial Officer	August 2017
Sébastien Mailhot Boucherville, Québec, Canada	Chief Operating Officer	July 2015
Philippe Roy Saint-Bruno, Québec, Canada	Chief Business Development Officer	November 1999
Robert Desautels Vaudreuil-sur-le-lac, Québec, Canada	Chief Technology Officer	October 2014
Yannick Gemme Longueuil, Québec, Canada	Vice President, Sales	April 2018
Steve Li Brossard, Québec, Canada	Vice President, Investors Relations & Corporate Strategy	May 2019

**Claude Mc Master** has held the position indicated above for more than five (5) years. **Jean-François Lacroix** was the Chief Financial Officer and Executive Vice President of Solotech inc. from 2003 to 2015, and the Chief Financial Officer of Stingray Business, a division of Stingray Digital, from 2016 to 2017. **Sébastien Mailhot** served as Chief Executive Officer of Carreaux Ceragres before he was hired by the Corporation in 2015 as Senior Vice-President, Strategic Operations and Corporate Development until December 2016. **Philippe Roy** was the Chief Technology Officer of the Corporation until April 2013. **Robert Desautels** was Senior Vice-President Marketing of the Corporation from 2013 to 2014 and Senior Vice-President, Technology, Strategy and Operations from 2014 to 2018. **Yannick Gemme** served as Director, Home & OEM from 2011 to 2014 when he was appointed successively as Director of Sales, Industrial in 2014 and Vice President Sales, Simulation and Training in 2016. **Steve Li** served as Technology Analyst at Industrial Alliance Securities from 2006 to 2015, and as Director Corporate Development at Tecsys inc. from 2015 to 2019.

## **SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS**

As of June 26, 2019, the directors and executive officers of D-BOX, as a group, are the beneficial owners of, directly or indirectly, or exercise control or direction over an aggregate of 6,386,414 Class A common shares of the Corporation, representing 3.6% of the 175,950,573 Class A common shares issued and outstanding of the Corporation. None of the directors or executive officers of the Corporation owns or controls voting shares of D-BOX USA or D-BOX China as those two companies are wholly-owned by D-BOX. The information in this paragraph was provided by the relevant directors and executive officers of the Corporation.

## **INFORMATION REGARDING THE AUDIT COMMITTEE**

### **AUDIT COMMITTEE CHARTER**

The Audit Committee is currently composed of Éleine Cousineau Phénix, Jean-René Halde and Robert Copple. Under *Multilateral Instrument 52-110 Respecting Audit Committees*, a director serving on an audit committee is “independent” if he or she has no direct or indirect material relationship with the issuer, that is, a relationship which could, in the view of the Board of Directors, reasonably be expected to interfere with the exercise of the members’ independent judgment. The Board of Directors has determined that all members of the Audit Committee are independent members.

The Board of Directors has determined that each of the three members of the Audit Committee is “financially literate” within the meaning of Section 1.6 of *Multilateral Instrument 52-110 Respecting Audit Committees*, that is, each member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting

issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

## **EDUCATION AND RELEVANT EXPERIENCE**

The education and experience of each member of the Audit Committee that is relevant to his or her responsibilities are set out below.

Ms. Éleine Cousineau Phénix holds a Bachelor of Arts with Honours from Collège Jean-de-Brébeuf, is a Fellow of the Canadian Securities Institute and a certified corporate director (CCD) from the Collège des administrateurs de sociétés. Ms. Cousineau Phénix counts over twenty-five (25) years of experience in the Canadian capital market, especially as Senior Vice-President, Syndication, at Lévesque, Beaubien, Geoffrion Inc. (now National Bank Financial Inc.) and as Senior Vice-President, Capital Development at the Montreal Exchange. Since 1999, Ms. Cousineau Phénix is President of Phénix Capital Inc. acting as consultant in assets management for institutional and private clients. Ms. Cousineau Phénix is currently chair of the board of director for Sidex LP; chair of the Investment Committee of Barreau du Québec Employee Pension Fund; member of the Independent Audit Committee of the Natural Sciences and Engineering Research Council of Canada and the Social and Sciences and Humanities Research Council of Canada. In 2012, Ms Cousineau Phénix was awarded Queen Elizabeth II Diamond Jubilee Medal by the Investment Industry Association of Canada as recognition to individuals who, during their professional life, made an impactful contribution to the Canadian investment industry.

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## **PRE-APPROVAL POLICIES AND PROCEDURES FOR AUDIT SERVICES**

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services. However, the charter of the Audit Committee provides that the provision of any non-audit services by the independent auditors must be pre-approved by the Audit Committee.

## **Independent Auditors' Fees**

### *Audit Fees*

"Audit fees" consist of fees for professional services for the audit of the Corporation's annual consolidated financial statements, help in preparing the interim financial statements and related matters. Ernst & Young LLP, the Corporation's



independent auditors, billed the Corporation \$98,500 in audit fees during the fiscal year ended March 31, 2019, and \$96,650 in audit fees during the fiscal year ended March 31, 2018.

#### *Audit-Related Fees*

“Audit-related fees” consist of fees for professional services that are reasonably related to the performance of the audit or review of the Corporation’s financial statements and which are not reported under “Audit Fees” above, such as the assistance for implementing the International Financial Reporting Standards. Ernst & Young LLP, the Corporation’s independent auditors, billed the Corporation \$32,000 in audit-related fees during the fiscal year ended March 31, 2019, and \$12,000 in audit-related fees during the fiscal year ended March 31, 2018.

#### *Tax Fees*

“Tax fees” consist of fees for professional services for tax compliance, tax advice and tax planning. Ernst & Young LLP, the Corporation’s independent auditors, billed the Corporation \$49,300 in tax fees during the fiscal year ended March 31, 2019, and did not bill the Corporation any tax fees during the fiscal year ended March 31, 2018.

#### *All Other Fees*

“All other fees” consist of fees for services other than the audit fees, audit-related fees and tax fees described hereinabove. These services include translation services. Ernst & Young LLP, the Corporation’s independent auditors, billed the Corporation \$16,000 for other services during the fiscal year ended March 31, 2019, and did not bill the Corporation for other services during the fiscal year ended March 31, 2018.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

During the fiscal year ended March 31, 2019, and based on applicable regulations in this matter, the Corporation is not, and was not a party to, nor was its property subject to legal proceedings or regulatory actions. To the knowledge of the Corporation, no legal proceedings or regulatory actions are currently contemplated.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No insiders, directors or executive officers of the Corporation or any of their respective associates has or has had a material interest, direct or indirect, in any material transaction whether proposed or concluded which had or may have an adverse effect on the Corporation or its subsidiaries in the last three completed fiscal years.

### **MATERIAL CONTRACTS**

On August 5, 2015, the Corporation entered into a Loan Agreement with the Caisse de dépôt et placement du Québec (“CDPQ”) for an aggregate amount of five million Canadian dollars (CAD \$5,000,000), which loan bears interest at a rate between 7% and 10% and is secured by all moveable assets of the Corporation, exception made of its intellectual property portfolio. In connection with this loan, the Corporation issued CDPQ 4,500,000 share purchase warrants for 4,500,000 Class A Class A common shares of the Corporation having an exercise price of CAD \$0,50 to be exercised on or before August 5, 2019.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the shares of the Corporation is Computershare Investor Services Inc. at its principal offices in Montréal.

## **INTERESTS OF EXPERTS**

Ernst & Young LLP have been the independent auditors of the Corporation since 2004 and accordingly, have signed the auditors' report on the consolidated annual financial statements of the Corporation for the fiscal year ended March 31, 2019.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be found through the Internet on SEDAR, which can be accessed at [www.sedar.com](http://www.sedar.com).

Additional information, including the compensation and indebtedness of directors and senior executives, the principal holders of the Corporation's shares and the shares authorized for issuance under the Stock Option Plan, if any, is contained in the Corporation's management proxy circular for its most recent annual meeting of shareholders where the Corporation's directors have been elected.

Additional financial information is provided in the Corporation's consolidated financial statements and management's discussion and analysis for its fiscal year ended March 31, 2019.

Additional information concerning the Corporation's products can also be found at [www.d-box.com](http://www.d-box.com), the Corporation's website.

## **SCHEDULE A**

### **AUDIT COMMITTEE CHARTER OF D-BOX TECHNOLOGIES INC.**

#### **1. PURPOSE**

Financial reporting and disclosure by D-BOX Technologies Inc. (the "Corporation") represents one of the most important aspects of the management of the Corporation's business and affairs. The Board of Directors supervises this financial reporting and disclosure process to gain reasonable assurance that the following objectives are being met:

- (a) that the Corporation complies with the laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (b) that the accounting policies and practices, significant decisions and information which underlie or are incorporated in the Corporation's financial statements are the most appropriate in the circumstances;
- (c) that the Corporation's quarterly and annual financial statements are accurate and present fairly the Corporation's financial position and performance in accordance with the International Financial Reporting Standards ("IFRS"); and
- (d) that pertinent information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner.

To assist the Board of Directors in its monitoring of the Corporation's financial reporting and disclosure process, the Board of Directors has established the Audit Committee.

Although the Audit Committee has the powers and responsibilities set forth in this Charter, its role is one of monitoring. The members of the Audit Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the Audit Committee to audit the Corporation's financial statements and information or to assess whether same are complete and accurate and in compliance with IFRS and applicable rules and regulations. This is the responsibility of management, the independent auditors and other professionals retained by the Corporation.

#### **2. COMPOSITION AND QUALIFICATION**

The members of the Audit Committee are appointed each year by the Board of Directors. The Committee is composed of a minimum of three (3) independent directors chosen from among the members of the Board of Directors. The members are appointed at the first meeting following the annual meeting of shareholders or at any other meeting if a vacancy arises. Each year, the Board of Directors appoints as chair of the Committee one of the members of the Committee.

All the members of the Audit Committee shall be financially literate and, as such, be able to read and understand financial statements. At least one (1) member of the Audit Committee shall have "accounting or related financial expertise" acquired through previous employment experience in the area of finance or accounting, requisite professional certification in accounting or any other comparable experience or background which allowed him or her to gain such financial expertise, including having been a Chief Executive Officer, Chief Financial Officer or other senior officer with financial oversight responsibilities, and be able to analyze and interpret a complete set of financial statements along with the notes thereto in accordance with IFRS.

In connection with the execution of the obligations of the Audit Committee, each member of the Committee shall be entitled to rely in good faith upon the following documents:

- (a) the financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the independent auditors to present fairly the financial position of the Corporation in accordance with IFRS; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

In connection with the execution of the obligations of the Audit Committee pursuant to this mandate, each member of the Audit Committee shall be held to the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member

of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the other members of the Board of Directors are subject. The role of the Audit Committee is essentially to monitor and review in order to gain reasonable assurance (but not absolute assurance) that the fundamental accounting and reporting activities are being conducted effectively, that the financial reporting and disclosure objectives are being met and to report thereon to the Board of Directors.

### 3. OPERATING PRINCIPLES AND GUIDELINES

The Audit Committee fulfills its responsibilities within the context of the following principles and guidelines:

- (a) The Committee chair and the other members of the Audit Committee have direct, open and frank communications throughout the year with management, other committee chairs (where applicable) and members of the Board of Directors, the independent auditors and other key committee advisors, as applicable.
- (b) The Committee, together with management and the independent auditors, shall develop annually an audit committee work plan in line with the responsibilities of the Audit Committee as set out in this Charter.
- (c) The Audit Committee, together with management and the independent auditors, shall participate in the examination and review of any important financial issues and emerging standards that have the potential to impact on the Corporation's financial presentation and disclosure.
- (d) The chair of the Committee shall establish the agenda for each meeting of the Audit Committee, with the other members of the Audit Committee, senior management and the independent auditors.
- (e) The Committee shall communicate to management and the independent auditors its expectations with respect to the nature and extent of the information it requires, and the delays to be respected in this regard. The Committee expects to receive from management and the independent auditors all pertinent documentation with respect to any topic on the agenda for a meeting at least one week in advance of such meeting.
- (f) The Committee may, at the expense of the Corporation and after consulting with management, retain the services of one or more persons with specialized knowledge in order to allow the Committee to properly discharge its responsibility.
- (g) At each meeting of the Committee, the members of the Audit Committee meet *in camera* amongst themselves only with (as needed) the independent auditors only and with management only.
- (h) After each meeting of the Audit Committee, the Committee shall report to the Board of Directors at its next regular meeting or earlier if required, through the chair of the Committee.
- (i) As representatives of the shareholders, the independent auditors are ultimately accountable to the Board of Directors and the Audit Committee in the execution of its mandate. The Committee expects that the independent auditors will point out any significant issues or any other issues which may become significant and which result from its relationship with the Corporation.

The Audit Committee meets at least once per quarter, and more frequently if required by the circumstances. It is the responsibility of the Committee to determine the time and place, at which the meeting will take place, convene the meeting and to establish the procedures in light of the following requirements:

- (a) at all meetings of the Audit Committee a majority of the members shall constitute a quorum; and
- (b) any actions on the part of the Audit Committee at a duly constituted meeting require no more than the vote of a majority of the members present and, in all cases, a resolution or other instrument in writing signed by all of the members of the Audit Committee shall be deemed to be an action taken by the Audit Committee.

The senior officer responsible for the finances of the Corporation and the independent auditors usually attends all of the meetings of the Audit Committee.

The minutes of meetings of the Audit Committee are approved by the Committee and made available to the Board of Directors for informational purposes.

Subject to the appointment of another person as secretary of the Audit Committee, the Secretary of the Corporation acts as the secretary of the Audit Committee.

#### **4. RESPONSIBILITIES AND DUTIES**

The Committee is responsible for the following:

##### **4.1 Financial Reporting**

- Review the annual financial statements and the independent auditor's report thereon before they are released and recommend same for the approval of the Board of Directors.
- Review the interim and year-end financial statements, management's discussion and analysis and related news releases before they are released and recommend same for the approval of the Board of Directors.
- Review public disclosure documents, such as a prospectus or the annual information form, containing financial statements of the Corporation before they are released, and recommend same for the approval of the Board of Directors.
- Discuss with management and the independent auditors the pertinence of and compliance with the Corporation's accounting policies.
- Discuss with management any significant variances between comparative reporting periods and across comparable units.

##### **4.2 Accounting Policies**

- Proactively discuss and review the impact of proposed changes in accounting standards or securities polices or regulations relating to accounting policies and the disclosure of financial information.
- Review with management and the independent auditors, any proposed changes in accounting policies, as well as key estimates and decisions that could have a material impact on the Corporation's financial reporting and determine whether the underlying accounting policies, disclosures and key estimates and decisions are considered to be the most appropriate in the circumstances.
- Discuss with management and the independent auditors the clarity and adequacy of the financial information disclosed by the Corporation.
- Review examples of accounting policies and financial reporting practices relied on by management of the Corporation in comparison with the accounting policies and disclosure practices adopted by other companies operating in the same industry.

##### **4.3 Risk and Uncertainties**

Recognizing that it is the Board of Directors' responsibility, in conjunction with management, to (1) identify the principal business risks facing the Corporation, (2) determine the Corporation's degree of tolerance to risk, and (3) approve any risk management policies in place, the Audit Committee focuses on the significant financial risks and develops reasonable assurance that such risks are being effectively managed and controlled by management through the implementation of the following methods:

- Acquire reasonable assurance that these significant financial risks are effectively being mitigated and controlled by:
  - (i) Reviewing with management, at least once per quarter, an updated list of such financial risks as well as ongoing or special actions undertaken to manage each one of these identified risks;
  - (ii) Discussing with management its assessment of the residual financial exposure of the Corporation if any, resulting from its management of such financial risks; and

- (iii) Ensuring with management, that the existing policies, processes and programs are adequate to identify, manage and control such financial risks.
- Review, at least once per year, the adequacy of the insurance policies maintained by the Corporation.
- Review quarterly the list of the Corporation's outstanding contingent liabilities, if any, including legal claims, tax assessments and other, which could have a material effect upon the financial results and condition of the Corporation and the manner in which these matters are disclosed in the financial statements.
- Review, at least once per year, the adequacy of measures taken by the Corporation to mitigate foreign currency, interest rate and other financial risks, such as the use of derivative financial instruments.
- Review, at least one per year, the policies that require significant existing or potential liabilities, contingent or otherwise, to be reported to the Board of Directors in a timely fashion and compliance with such policies.

#### **4.4 Financial Controls and Deviations**

- Review annually the plans of the independent auditors to gain reasonable assurance that the internal quality-controls procedures are adequate in light of the risks and are comprehensive, coordinated and cost effective.
- Review quarterly, with management, its program relating to the development and updating of internal controls which shows the progress of any planned initiatives as well as any measures taken to control deviations.
- Receive from management, the independent auditors, legal counsel or other persons, regular reports regarding any significant deviations observed, including any detection of fraud, and the methods taken to correct the situation.
- Discuss with management the information used by the Chief Financial Officer to prepare a report, at least once per year, on the effectiveness of the Corporation's internal controls.

#### **4.5 Compliance with Laws and Regulations**

- Review regular reports from management, the independent auditors and legal counsel concerning the Corporation's compliance with tax and financial reporting laws and regulations specifically those requiring the Corporation to make withholdings and which have a material impact on financial statements.
- Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters.
- Establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

#### **4.6 Relationship with Independent Auditors**

- Recommend annually to the Board of Directors the nomination, the termination or replacement of the independent auditors.
- Approve the remuneration and terms and conditions of the independent auditor's mandate which are set out in its engagement letter.
- Receive a report annually from the independent auditors with respect to its independence, which report shall include disclosure relating to all engagements (including the related fees and costs) for non-audit services rendered to the Corporation.
- Review with the independent auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the independent audit can be coordinated with internal audit activities and the materiality levels which the independent auditors propose to employ.

- Establish effective communication processes with management and the Corporation's independent auditors to allow the Committee to objectively monitor the quality and efficiency of the relationship between the independent auditors, management and the Corporation.
- Resolve disagreements that may occur between management of the Corporation and the independent auditors regarding financial reporting, if any.
- Oversee quality and efficiency of the work performed by the independent auditors for the preparation and delivery of the audit report of the Corporation or any other audit, review or attest services required by the Corporation.
- Receive reports from the independent auditors on the status of the approved audit plan, any important findings, the recommendation letter and the final audit report.
- Meet regularly with the independent auditors in the absence of management.
- Establish annually, a list of services that may not be provided by the independent auditors in order to safeguard its objectivity and independence. Ensure that the list of prescribed services is in compliance with the applicable regulatory requirements.
- Approve, before any mandate is conferred upon the independent auditors, of any non-audit-related services, or services other than audit services, to be provided by the independent auditors.
- Annually review the Corporation's hiring policy limiting the hiring of certain present or former employees of the independent auditors.
- Review reports of the independent auditors relating to the planned rotation of partners assigned to the Corporation's affairs.

#### **4.7 Other Responsibilities and Issues**

- Review and reassess annually the adequacy of this Charter.
- After consulting with the chair and the independent auditors, gain reasonable assurance, at least annually, that the Corporation's accounting and financial personnel is competent and adequately staffed and that any other related resources are sufficient.
- Be kept up to date of any nomination of financial officers with respect to the Corporation.
- Carry out any and all duties that the Board of Directors may delegate, from time to time, to the Committee.