

Condensed Consolidated Interim Financial Statements

(In U.S. dollars)

D2L INC.

For the three and six months ended July 31, 2022 and 2021
(Unaudited)

D2L INC.

Condensed Consolidated Interim Balance Sheets
(In U.S. dollars)

As at July 31, 2022 and January 31, 2022
(Unaudited)

	July 31, 2022	January 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 113,485,070	$ 114,675,495
Trade and other receivables (note 3)	32,333,635	26,155,906
Uninvoiced revenue	2,341,679	2,253,146
Prepaid expenses	7,391,026	7,930,462
Deferred commissions	3,723,363	3,711,334
	159,274,773	154,726,343
Non-current assets:		
Prepaid expenses	158,384	178,585
Deferred income taxes	140,586	139,101
Right-of-use assets (note 4)	12,865,546	1,323,017
Property and equipment	2,492,430	2,323,708
Deferred commissions	7,525,467	7,510,242
Intangible assets	5,298,706	5,537,024
Goodwill	7,434,702	7,474,647
Total assets	$ 195,190,594	$ 179,212,667
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 20,205,509	$ 24,340,115
Deferred revenue	96,537,092	82,915,871
Lease liabilities (note 4)	768,792	1,199,013
Provisions (note 6)	3,265,449	3,265,449
	120,776,842	111,720,448
Non-current liabilities:		
Deferred income taxes	366,556	418,403
Lease liabilities (note 4)	13,163,452	693,921
	13,530,008	1,112,324
	134,306,850	112,832,772
Shareholders' equity:		
Share capital (note 8):	355,272,944	354,277,986
Additional paid-in capital	44,961,975	41,686,794
Accumulated other comprehensive loss	(3,530,963)	(3,330,708)
Deficit	(335,820,212)	(326,254,177)
	60,883,744	66,379,895
Subsequent event (note 6)		
Contingencies (note 11)		
Related party transactions (note 12)		
Total liabilities and shareholders' equity	$ 195,190,594	$ 179,212,667

See accompanying notes to the condensed consolidated interim financial statements.

On behalf of the Board:

/signed/ John Baker, Director

/signed/ J. Ian Giffen, Director

D2L INC.

Condensed Consolidated Interim Statements of Comprehensive Loss
(In U.S. dollars)

For the three and six months ended July 31, 2022 and 2021
(Unaudited)

	Three months ended July 31		Six months ended July 31	
	2022	2021	2022	2021
Revenue:				
Subscription and support	$ 35,817,285	$ 33,005,333	$ 71,583,788	$ 63,566,943
Professional services and other	5,356,142	3,788,969	11,459,723	7,763,117
	41,173,427	36,794,302	83,043,511	71,330,060
Cost of revenue:				
Subscription and support	11,403,524	10,284,569	22,842,152	21,342,615
Professional services and other	3,184,484	2,997,665	7,262,849	5,572,809
	14,588,008	13,282,234	30,105,001	26,915,424
Gross profit	26,585,419	23,512,068	52,938,510	44,414,636
Expenses:				
Sales and marketing	14,021,773	11,057,440	27,078,863	21,193,790
Research and development	10,450,798	9,569,557	21,735,965	17,894,388
General and administrative	6,578,462	4,584,794	12,985,502	8,934,191
	31,051,033	25,211,791	61,800,330	48,022,369
Loss from operations	(4,465,614)	(1,699,723)	(8,861,820)	(3,607,733)
Interest and other income (expenses):				
Interest expense	(166,257)	(60,485)	(403,857)	(175,843)
Interest income	156,835	19,195	175,081	22,106
Loss on redeemable convertible preferred shares	—	(15,609,413)	—	(47,924,708)
Foreign exchange loss	(150,140)	(245,069)	(178,358)	(240,772)
	(159,562)	(15,895,772)	(407,134)	(48,319,217)
Loss before income taxes	(4,625,176)	(17,595,495)	(9,268,954)	(51,926,950)
Income taxes (recovery):				
Current	165,580	62,039	355,096	116,322
Deferred	12,616	145,678	(58,015)	206,063
	178,196	207,717	297,081	322,385
Loss for the period	(4,803,372)	(17,803,212)	(9,566,035)	(52,249,335)
Other comprehensive gain (loss):				
Foreign currency translation gain (loss)	(146,590)	756,922	(200,255)	1,176,970
Comprehensive loss	$ (4,949,962)	$ (17,046,290)	$ (9,766,290)	$ (51,072,365)
Loss per share – basic (note 9)	$ (0.09)	$ (0.64)	$ (0.18)	$ (1.89)
Loss per share – diluted (note 9)	(0.09)	(0.64)	(0.18)	(1.89)
Weighted average number of common shares – basic (note 9)	53,004,320	27,968,240	52,996,253	27,690,520
Weighted average number of common shares – diluted (note 9)	53,004,320	27,968,240	52,996,253	27,690,520

See accompanying notes to the condensed consolidated interim financial statements.

D2L INC.

Condensed Consolidated Interim Statements of Shareholders' Equity (Deficiency)
(In U.S. dollars)

For the six months ended July 31, 2022 and 2021
(Unaudited)

	Share Capital Shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
Balance, January 31, 2022	52,912,502	$ 354,277,986	$ 41,686,794	$ (3,330,708)	$ (326,254,177)	$ 66,379,895
Issuance of Subordinate Voting Shares on exercise of options	120,224	994,958	(368,690)	—	—	626,268
Stock-based compensation (note 10)	—	—	3,643,871	—	—	3,643,871
Other comprehensive loss	—	—	—	(200,255)	—	(200,255)
Loss for the period	—	—	—	—	(9,566,035)	(9,566,035)
Balance, July 31, 2022	53,032,726	$ 355,272,944	$ 44,961,975	$ (3,530,963)	$ (335,820,212)	$ 60,883,744
Balance, January 31, 2021	26,468,768	$ 217,633	$ 45,285,371	$ (4,190,459)	$ (228,601,100)	$ (187,288,555)
Issuance of Class O common shares on exercise of options	1,521,332	17,765,188	(6,450,017)	—	—	11,315,171
Stock-based compensation (note 10)	—	—	795,724	—	—	795,724
Other comprehensive gain	—	—	—	1,176,970	—	1,176,970
Loss for the period	—	—	—	—	(52,249,335)	(52,249,335)
Balance, July 31, 2021	27,990,100	$ 17,982,821	$ 39,631,078	$ (3,013,489)	$ (280,850,435)	$ (226,250,025)

See accompanying notes to the condensed consolidated interim financial statements.

D2L INC.

Condensed Consolidated Interim Statements of Cash Flows
(In U.S. dollars)

For the six months ended July 31, 2022 and 2021
(Unaudited)

	2022	2021
Operating activities:		
Loss for the period	$ (9,566,035)	$ (52,249,335)
Items not involving cash:		
Depreciation of property and equipment	938,887	699,429
Depreciation of right-of-use assets (note 4)	1,101,355	722,331
Amortization of intangible assets	208,472	9,527
Fair value loss on redeemable convertible preferred shares	—	47,924,708
Stock-based compensation (note 10)	3,643,871	795,724
Net interest expense	228,776	153,737
Income tax expense	297,081	322,385
Changes in operating assets and liabilities:		
Trade and other receivables	(6,472,931)	(10,047,249)
Uninvoiced revenue	(115,215)	1,454,906
Prepaid expenses	505,606	(1,684,069)
Deferred commissions	(266,499)	(580,544)
Accounts payable and accrued liabilities	(4,129,872)	(4,331,171)
Deferred revenue	14,467,740	17,763,284
Right-of-use assets and lease liabilities	133,336	(18,810)
Interest received	175,081	22,106
Interest paid	(75,052)	(78,925)
Income taxes paid	(147,493)	(326,670)
Cash flows from operating activities	927,108	551,364
Financing activities:		
Payment of lease liabilities	(1,113,960)	(1,178,507)
Proceeds from exercise of stock options	626,268	11,315,171
Borrowings on credit facility	—	7,000,003
Repayments to credit facility	—	(7,000,003)
Cash flows (used in) from financing activities	(487,692)	10,136,664
Investing activities:		
Purchase of property and equipment	(1,113,301)	(374,161)
Issuance of shareholder loan (note 12)	—	(16,138,612)
Cash flows used in investing activities	(1,113,301)	(16,512,773)
Effect of exchange rate changes on cash and cash equivalents	(516,540)	1,615,075
Decrease in cash and cash equivalents	(1,190,425)	(4,209,670)
Cash and cash equivalents, beginning of period	114,675,495	45,303,944
Cash and cash equivalents, end of period	113,485,070	41,094,274

See accompanying notes to the condensed consolidated interim financial statements.

D2L Inc. was incorporated on January 2, 2011 under the laws of Ontario, Canada and continued under the Canadian Business Corporations Act, effective June 20, 2014. The address of the Company's head office is 151 Charles Street West, Suite 400, Kitchener, ON, Canada, N2G 1H6. D2L Inc. and its subsidiaries (the "Company" or "D2L") provide cloud-based learning software for higher education institutions, kindergarten to grade 12 (K-12) schools and districts, and private sector enterprises.

On November 3, 2021, the Company completed an initial public offering and its shares began trading on the Toronto stock exchange under the symbol “DTOL”.

1. Basis of presentation:

(a) Statement of compliance and consolidation:

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended January 31, 2022 (the “Annual Financial Statements”). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual audited consolidated financial statements as at and for the year ended January 31, 2022.

The Interim Financial Statements were authorized for issuance by the Board of Directors on September 7, 2022.

(b) Basis of consolidation:

These consolidated financial statements include the accounts of (i) D2L Inc.; (ii) its wholly owned subsidiaries: D2L Corporation, D2L Ltd., D2L Europe Ltd., D2L EU B.V., D2L Australia Pty Ltd., D2L Asia Pte Ltd., D2L Brasil Solucoes de Tecnologia para Educacao Ltda, D2L Commerce Inc. and Desire2Learn LLC; and (iii) Desire2Learn Employee Stock Trust (the “Employee Trust”) for periods prior to the dissolution of the trust on November 3, 2021. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation and are not disclosed.

1. Basis of presentation (continued):

(c) Comparative figures:

The comparative information within the Condensed Consolidated Interim Statements of Cash Flows have been adjusted to present interest expense, interest income and income taxes within operating activities. There is no impact to total cash flows from operating activities.

(d) Seasonality of interim operations:

The operations of the Company can be seasonal in nature. Cash flows from operations generally have a seasonal low in the first quarter each year and a seasonal high in the second quarter each year, due to the contractual timing of annual invoicing with our end customers, many of which have a fiscal year end in the second quarter.

The results of operation for any interim period are not necessarily indicative of operations for the full fiscal year or any future period.

(e) Use of estimates and judgments:

The preparation of the Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended January 31, 2022.

2. Significant accounting policies:

The accounting policies followed in these Interim Financial Statements are consistent with the accounting policies outlined in note 2 of the Company's Annual Financial Statements.

There are no updates to information provided in the Annual Financial Statements about the standards issued but not yet effective that could potentially impact the Company.

3. Trade and other receivables:

	July 31, 2022	January 31, 2022
Trade receivables	$ 29,633,597	$ 24,197,051
Allowance for doubtful accounts	(371,514)	(323,459)
Net trade receivables	29,262,083	23,873,592
Other receivables	3,071,552	2,282,314
Trade and other receivables	$ 32,333,635	$ 26,155,906

As at July 31, 2022, one customer accounted for more than 10% of the net trade receivables, representing 19% of the balance (January 31, 2022 - one customer accounted for more than 10% of net trade receivables, representing 26% of the balance). These balances have no identified collection risk as of the respective reporting dates. The amount owed as of January 31, 2022 has been collected.

Other receivables are comprised of government grants and SR&ED tax credits.

4. Leases:

The Company leases certain properties under non-cancellable lease agreements that relate to office space. The expected remaining lease terms are between 1 and 132 months.

(a) As a lessee:

The following reconciles the right-of-use assets as at July 31, 2022:

Carrying amount, January 31, 2022	$ 1,323,017
Additions	12,510,506
Modifications to lease contracts	313,735
Depreciation	(1,101,355)
Foreign exchange loss recorded in other comprehensive loss	(180,357)
Carrying amount, July 31, 2022	$ 12,865,546

4. Leases (continued):

The following reconciles the lease liabilities as at July 31, 2022:

Carrying amount, January 31, 2022	$ 1,892,934
Additions	12,645,226
Modifications to lease contracts	313,735
Principal lease payments	(782,560)
Foreign exchange gain recorded in other comprehensive loss	(137,091)
Carrying amount, July 31, 2022	$ 13,932,244
Current	$ 768,792
Non-current	13,163,452

D2L Corporation, a subsidiary of the Company, entered into a lease agreement with Catalyst 137 Kitchener L.P ("Catalyst") for office space in Kitchener, Ontario (the "Kitchener Lease"). The Kitchener Lease is recognized in these Interim Financial Statements and is described further in note 12(f).

The total future undiscounted lease payments for the Company, including the Kitchener Lease above, are as follows:

August 1, 2022 - July 31, 2023	$ 808,467
August 1, 2023 - July 31, 2024	1,552,008
August 1, 2024 - July 31, 2025	1,621,959
August 1, 2025 - July 31, 2026	1,684,771
August 1, 2026 - July 31, 2034	12,343,446
Total future undiscounted lease payments	18,010,651
Less impact of discounting	(4,078,407)
Lease liability recorded on consolidated balance sheet	$ 13,932,244

4. Leases (continued):

Interest expense on lease obligations for the three and six months ended July 31, 2022 was $168,097 and $331,398, respectively (2021 – $55,591 and $118,174, respectively). Net expenses relating to short-term leases excluded from lease liabilities due to the election of the practical expedient were $75,917 and $129,358 for the three and six months ended July 31, 2022, respectively (2021 – $4,541 and $5,798, respectively). Variable lease payments not included in the measurement of lease liabilities were $371,329 and $740,806 for the three and six months ended July 31, 2022, respectively (2021 - $371,042 and $676,422, respectively).

5. Borrowings:

The Company had a credit facility that included a $20,000,000 revolving line of credit that matured on March 19, 2022. Funds available through this credit facility were limited in use to financing capital expenditures, permitted acquisitions, as working capital and to fund general business requirements. Interest on this credit facility was the greater of Wall Street Journal ("WSJ") Prime Rate plus 1.25%, and 5.00% if adjusted quick ratio ("AQR") was less than 2:1, or the greater of WSJ Prime Rate plus 0.75%, and 4.5% if AQR was greater than 2:1. The credit facility was secured by a first priority general security interest over all assets of the Company, excluding intellectual property and certain carve-outs.

There was no balance outstanding on this credit facility at January 31, 2022 or at maturity. The Company recognized interest expense on the credit facility of nil for both the three and six months ended July 31, 2022 (2021 – $15,512 and $75,387, respectively).

6. Provisions:

The Company had a contractual dispute with a customer under a multi-year contract that was ultimately resolved through an out of court settlement.

As at July 31, 2022, the Company has recorded a provision in the amount of $3,265,449 for payment advanced by the customer. The customer paid the Company an additional $2,035,101 pursuant to the terms of the contract. This amount has been recognized through profit and loss in prior periods.

6. Provisions (continued):

Subsequent to July 31, 2022 and prior to the issuance date of these Interim Financial Statements, the Company and the customer reached a settlement agreement. On August 16, 2022, the Company and the customer executed a full and final settlement agreement to fully resolve all claims. The Company paid the customer $3,250,550, thereby retaining $2,050,000 of the $5,300,550 which the customer previously paid to Company under the relevant contract. The settlement amount was paid in its entirety on August 17, 2022. The settlement agreement contained a mutual release of claims between the parties, and an obligation to file a stipulation with the court to dismiss all claims relating to the dispute. As a result, the Company has determined this matter to be closed.

7. Financial instruments:

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company measures fair value on a recurring basis based on a fair value hierarchy that requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instruments' categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs.

Observable inputs are based on market data obtained from independent sources.

The fair values of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities, approximate their carrying values (a Level 2 measurement) due to their short-term nature.

8. Share capital:

(a) Share capital reorganization:

Prior to November 2, 2021, the Company had Class A common shares, Class O common shares and Class T shares issued and outstanding. On November 2, 2021, the Company filed articles of amendment to, among other things: (i) amend the terms of the Class A common shares and redesignate them as Subordinate Voting Shares; (ii) create an unlimited number of Multiple Voting Shares; and (iii) an unlimited number of preferred shares.

Immediately prior to the closing of the Initial Public Offering ("IPO") on November 3, 2021, all outstanding Series A preferred shares, Series B preferred shares and Class O common shares converted into Subordinate Voting Shares in accordance with their terms. Each of the Class T shares, held by the Employee Trust as treasury stock, were converted in accordance with their terms for a fraction of a Subordinate Voting Share. The Subordinate Voting Shares issued to 2416535 Ontario Inc. ("2416535"), a corporation controlled by John Baker, were exchanged for an equal number of Multiple Voting Shares pursuant to a share exchange agreement entered into between the Company and 2416535.

(b) Authorized share capital as at July 31, 2021, prior to the share capital organization:

- Unlimited number of Class A common shares, voting, non-cumulative participating dividend rights
- Unlimited Class O common shares, non-voting, convertible, non-cumulative participating dividend rights
- Unlimited Class T shares, non-voting, convertible, fixed redemption value, redeemable at the option of the Company, non-cumulative participating dividend rights

(c) Authorized share capital as at July 31, 2022, subsequent to the share capital organization:

- Unlimited number of Subordinate Voting Shares, entitled to one vote per share, non-cumulative participating dividend rights, not convertible into any other class of shares
- Unlimited number of Multiple Voting Shares, entitled to 10 votes per share, non-cumulative participating dividend rates, convertible into Subordinate Voting Shares at the option of the holder and automatically in certain situations, subject to certain restrictions

8. Share capital (continued):

- Unlimited number of preferred shares, issuable in series. The Board of Directors may, subject to certain restrictions, fix the number of preferred shares in a series and determine the designation of certain rights, including but not limited to: any right to receive dividends; any terms or conditions of redemption or purchase; any conversion rights; any retraction rights; and any rights on the Company's liquidation, dilution and winding up

(d) Issued:

As at July 31, 2022, the Company had 25,642,138 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

As at July 31, 2021, the Company had 26,447,059 Class A common shares and 1,543,041 Class O common shares issued and outstanding. The Employee Trust, which was dissolved on November 3, 2021, held 8,847,059 Class T shares of the Company as Treasury Stock.

9. Loss per share:

Loss per share is calculated by dividing loss for the periods by the weighted average number of fully paid shares outstanding throughout the periods.

	Three months ended July 31		Six months ended July 31	
	2022	2021	2022	2021
Loss for the period	$ (4,803,372)	$ (17,803,212)	$ (9,566,035)	$ (52,249,335)
Weighted average number of outstanding shares	53,004,320	27,968,240	52,996,253	27,690,520
Loss per share - basic and dilutive	$ (0.09)	$ (0.64)	$ (0.18)	$ (1.89)

The Company has three categories of potentially dilutive securities: stock options, restricted stock units and deferred share units.

9. Loss per share (continued):

All potentially dilutive securities have been excluded from the calculation of diluted loss per share for all periods presented, as the Company was in a net loss position during those periods. Including the dilutive securities would be anti-dilutive; therefore, basic and dilutive number of shares used in the calculation is the same for all periods presented.

10. Stock-based compensation:

Total stock-based compensation expense recognized in the Company's condensed consolidated interim statement of comprehensive loss was as follows for the three and six months ended July 31:

	Three months ended July 31		Six months ended July 31	
	2022	2021	2022	2021
Cost of subscription and support	$ 57,400	$ 13,190	$ 104,169	$ 25,912
Cost of professional services and other	28,425	17,922	51,934	35,794
Sales and marketing	268,591	233,160	675,328	433,986
Research and development	638,555	72,418	1,184,258	148,494
General and administrative	1,000,847	69,617	1,628,182	151,538
	$ 1,993,818	$ 406,307	$ 3,643,871	$ 795,724

(a) Legacy stock option plan:

For the three and six months ended July 31, 2022, the Company recognized stock-based compensation expense of $154,902 and $483,805, respectively (2021 – $406,307 and $795,724, respectively) related to stock options. A summary of stock option activity for the six months ended July 31, 2022 is presented below:

10. Stock-based compensation (continued):

	Number of stock options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 31, 2022	7,547,243	$ 6.80	3.37
Options forfeited	(304,287)	7.21	—
Options exercised	(120,224)	5.21	—
Balance, July 31, 2022	7,122,732	$ 6.81	2.69
Exercisable, end of period	6,171,563	$ 6.65	1.88

A summary of stock option activity for the year ended January 31, 2022 is presented below:

	Number of stock options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 31, 2021	9,409,014	$ 6.60	3.80
Options granted	428,000	11.13	9.24
Options forfeited	(717,042)	5.46	—
Options exercised	(1,572,729)	7.37	—
Balance, January 31, 2022	7,547,243	$ 6.80	3.37
Exercisable, end of year	6,176,258	$ 6.59	2.25

10. Stock-based compensation (continued):

Options outstanding and options exercisable as at July 31, 2022 by range of exercise price are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options
$5.00 - $6.00	$ 5.16	2,496,401	4.37	$ 5.16	2,179,254
$6.01 - $7.00	$ 6.50	379,424	8.19	$ 6.50	148,490
$7.01 - $8.00	$ 7.44	3,675,642	0.07	$ 7.44	3,675,642
$8.01 - $9.00	$ 8.48	286,004	8.34	$ 8.48	98,494
$9.01 - $10.00	$ 9.55	125,261	8.57	$ 9.55	69,683
$10.01 - $14.00	$ 13.77	160,000	9.02	—	—
	$ 6.81	7,122,732	2.69	$ 6.65	6,171,563

No stock options were granted during the six months ended July 31, 2022. During the six months ended July 31, 2021, the weighted average fair value of $3.33 per option was determined at the time of grant using the Black-Scholes model and the following weighted average assumptions: risk free interest rate of 0.67%, expected life of 6.3 years, expected volatility of 34.49% and expected dividend yield of nil. The expected volatility was based on the share price volatility observed for comparable publicly traded companies over a period similar to the life of the options.

(b) Long Term Incentive Plan:

During the three and six months ended July 31, 2022, the Company recognized stock-based compensation expense of $1,755,519 and $3,061,669 (2021 – nil for both periods) related to restricted share units (“RSUs”). A summary of RSU activity for the period ended July 31, 2022 is presented below:

10. Stock-based compensation (continued):

	Number of RSUs outstanding	Weighted average grant date fair value per RSU (in CAD)
Balance, January 31, 2022	843,275	$ 16.69
RSUs granted	1,459,367	7.25
RSUs forfeited	(89,567)	13.14
RSUs settled	—	—
Balance, July 31, 2022	2,213,075	$ 10.61
Vested but not yet settled, July 31, 2022	—	—

A summary of RSU activity for the year ended January 31, 2022 is presented below:

	Number of RSUs outstanding	Weighted average grant date fair value per RSU (in CAD)
Balance, January 31, 2021	—	—
RSUs granted	896,475	$ 16.69
RSUs forfeited	(53,200)	16.72
RSUs settled	—	—
Balance, January 31, 2022	843,275	$ 16.69
Vested but not yet settled, January 31, 2022	—	—

(c) Deferred Share Unit Plan:

During the three and six months ended July 31, 2022, the Company recognized stock-based compensation expense of $83,397 and $98,397 (2021 – nil for both periods) related to deferred share units (“DSUs”). A summary of DSU activity for the period ended July 31, 2022 is presented below:

10. Stock-based compensation (continued):

	Number of DSUs outstanding	Weighted average grant date fair value per DSU (in CAD)
Balance, January 31, 2022	1,283	$ 14.48
DSUs granted	105,215	7.57
DSUs forfeited	—	—
DSUs settled	—	—
Balance, July 31, 2022	106,498	$ 7.66
Vested but not yet settled, July 31, 2022	5,713	$ 9.96

A summary of DSU activity for the year ended January 31, 2022 is presented below:

	Number of DSUs outstanding	Weighted average grant date fair value per DSU (in CAD)
Balance, January 31, 2021	—	—
DSUs granted	1,283	$ 14.48
DSUs forfeited	—	—
DSUs settled	—	—
Balance, January 31, 2022	1,283	$ 14.48
Vested but not yet settled, January 31, 2022	1,283	$ 14.48

11. Contingencies:

The Company, from time to time, is subject to claims and suits relating to matters in the ordinary course of business. Other than the matter outlined in note 6, the Company believes that any ultimate liability resulting from any such litigation will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position.

11. Contingencies (continued):

Employee stock trust tax matter:

The Employee Trust was established by way of a trust agreement dated December 24, 2005 to acquire, hold and distribute D2L securities for the benefit of full-time employees of the Company and its affiliates, as designated by the Trustees in their sole discretion. The Employee Trust distributed shares to certain of its beneficiaries in August 2012. The Canadian recipients of these distributions reported the distributions as capital gains for tax purposes on the basis of tax advice received by the advisors to the Employee Trust. The Canada Revenue Agency ("CRA") reassessed these distributions as employment income. Three of the affected individuals filed Notices of Appeal with the Tax Court of Canada appealing the notices of reassessment issued to them. These appeals constituted representative actions that bound the other individuals in the class. On September 29, 2020, the Tax Court of Canada dismissed all three appeals. On October 28, 2020, appeals from the Tax Court of Canada judgments were commenced in the Federal Court of Appeal by the affected individuals. The appeal before the Tax Court of Canada was heard on September 27, 2021. The Federal Court of Appeals dismissed the appeal through a judgment delivered on November 15, 2021. The Tax Court of Canada found that the payments made by the Employee Trust were not excluded payments for the purposes of the definition of an employee benefit plan, and were deemed to be employment income. Leave to Appeal to the Supreme Court of Canada was filed. The Company paid the legal counsel costs associated with the appeal. The Supreme Court of Canada dismissed the Leave to Appeal on May 26, 2022. As a result, the Company has determined this matter to be closed, as all avenues of appeal have been exhausted.

While no claims against the Company have been asserted to date in connection with the distributions by the Employee Trust, it is possible that affected beneficiaries may seek contribution and indemnity from the Company, the Employee Trust and/or the Trustees, each of which Trustees the Company has agreed to indemnify for costs incurred in any proceeding to which any of those Trustees is, or is threatened to be, made a party by reason of the Trustee's service as trustee. The CRA may also take action against the Company, the Employee Trust and/or the Trustees for failure to withhold appropriate amounts from the Employee Trust's distributions in 2012. The Company believes that it would have effective defences to any such claims and that its aggregate exposure to any such claims is not material. As a result, the Company does not believe an accrual is required in respect of these matters and has not recorded an accrual.

12. Related party transactions:

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The following transactions were carried out with related parties:

(a) The Company recognized revenue of $23,040 and $46,447 for the three and six months ended July 31, 2022, respectively (2021 - $34,685 and $68,542, respectively) related to service agreements with Virtual High School Ontario, a corporation controlled by family members of John Baker, the Company's CEO, and in which John Baker, had a minority interest and other business dealings. As at July 31, 2022, the Company had nil (January 31, 2022 - nil) in trade receivables from this related party.

(b) The Company expensed purchases of nil for the three and six months ended July 31, 2022 (2021 - $22,070 and $120,630, respectively) related to purchase agreements with Bayfield Design Inc. (“Bayfield Design”), a corporation previously controlled by family members of John Baker, the Company's CEO, and in which John Baker, had a minority interest and other business dealings. The purchase agreement was cancelled on August 3, 2021 pursuant to the acquisition of Bayfield Design referred to in note 15.

(c) The Company expensed purchases of nil for the three and six months ended July 31, 2022 (2021 - $122,061 and $241,212, respectively) related to a reseller agreement with Bayfield Design Inc., a corporation previously controlled by family members of John Baker, the Company's CEO, in which John Baker, had a minority interest and other business dealings. The purchase agreement was cancelled on August 3, 2021 pursuant to the acquisition of Bayfield Design referred to in note 15.

(d) On March 5, 2021, D2L Corporation made a loan to 2416535, a corporation controlled by John Baker, in the aggregate principal amount of $15,905,520 USD ($20,200,000 CAD) (the "Shareholder Loan").

2416535 fully repaid the outstanding balance on the Shareholder Loan and the accrued interest during the year ended January 31, 2022. A portion of the repayment, $7,988,411, was directed to D2L Corporation from net proceeds received by John Baker from the secondary offering of Subordinate Voting Shares by the Employee Trust (the “Secondary Offering”), which closed on November 3, 2021. As outlined in note 15, another portion of the repayment, $3,852,960, was applied by D2L Corporation towards the Shareholder Loan from proceeds that would otherwise be payable by D2L Corporation to Bayfield Design on the occurrence of the IPO, which also closed on November 3, 2021.

12. Related party transactions (continued):

(e) On February 2, 2022, D2L Corporation, a subsidiary of the Company, entered into a new lease agreement with 2372739 Ontario Inc. ("2372739") for a media studio and office space (the "Media Studio") in Bayfield, Ontario (the "Media Studio Lease"). 2372739 is controlled by a family member of John Baker, the Company's CEO. The Media Studio Lease was approved by the independent members of the Board of Directors, John Baker abstaining, following declaration of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Media Studio Lease. D2L Corporation will pay $2,193 (2,800 CAD) per month for the period beginning February 2, 2022 and terminating on January 31, 2023. The Company recognized rent expense of $6,527 and $13,179 (8,400 CAD and 16,800 CAD) for the three and six months ended July 31, 2022, respectively (2021 – nil for both periods). The Media Studio Lease may be terminated at the option of either party with 90 days notice to the other party. The Media Studio Lease extends the Company's existing arrangement to use the Media Studio pursuant to the Transition Services Agreement dated August 3, 2021, in order to properly facilitate the transition of, and utilization of, the assets acquired from Bayfield Design Inc., as described in note 15.

On July 11, 2022, notice of termination was provided by the Company with an effective termination date of October 10, 2022. As a result, the total committed amount of the lease during this period will be $19,737 (25,200 CAD).

(f) On October 15, 2021, D2L Corporation, a subsidiary of the Company, entered into the Kitchener Lease with Catalyst. John Baker, the Company's CEO, has a minority interest in Catalyst. The Kitchener Lease was approved by the independent members of the Board of Directors, John Baker abstaining, following declaration of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Kitchener Lease.

The Kitchener Lease will replace the Company's current head office space in Kitchener. The term of the Kitchener Lease is 11.5 years, which commenced on February 1, 2022. The Company recognized lease-related expenses of $435,242 and $868,285 (557,625 CAD and 1,111,855 CAD) for the three and six months ended July 31, 2022, respectively (2021 – nil for both periods). D2L Corporation has the following cash flow commitment relating to the Kitchener Lease:

12. Related party transactions (continued):

Kitchener Lease Commitment	CAD	USD
August 1, 2022 - July 31, 2023	$ 279,177	$ 217,954
August 1, 2023 - July 31, 2024	1,746,717	1,363,664
August 1, 2024 - July 31, 2025	1,820,234	1,421,059
August 1, 2025 - July 31, 2026	1,897,473	1,481,359
August 1, 2026 - July 31, 2034	15,745,583	12,292,593
Total undiscounted commitment	$ 21,489,184	$ 16,776,629

13. Employee benefits:

The total employee compensation comprising of salaries and benefits, excluding grants and tax credits, for the three and six months ended July 31, 2022 was $26,889,938 and $54,097,865 respectively (2021 - $24,303,653 and $47,602,419, respectively).

The Company has a defined contribution pension plan for its eligible employees. The total cost recognized for the Company's defined contribution plan for the three and six months ended July 31, 2022 was $553,682 and $1,114,736 (2021 - $478,182 and $1,033,740, respectively).

14. Operating segments:

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment.

The following tables present details on revenue derived by geographic location for the three and six months ended July 31, and details derived on property and equipment and right-of-use assets located in the following geographical locations as at July 31, 2022 and January 31, 2022:

14. Operating segments (continued):

Revenue for the three and six months ended July 31:

	Three months ended July 31		Six months ended July 31	
	2022	2021	2022	2021
Canada	$ 11,001,132	$ 9,952,936	$ 21,361,764	$ 19,530,244
United States	23,244,297	20,323,892	47,779,855	38,880,573
Rest of world	6,927,998	6,517,474	13,901,892	12,919,243
Total	$ 41,173,427	$ 36,794,302	$ 83,043,511	$ 71,330,060

Property and equipment as at:

	July 31, 2022	January 31, 2022
Canada	$ 2,225,450	$ 2,109,289
United States	109,508	85,596
Rest of world	157,472	128,823
Total	$ 2,492,430	$ 2,323,708

Right-of-use assets as at:

	July 31, 2022	January 31, 2022
Canada	$ 12,769,253	$ 1,160,916
Rest of world	96,293	162,101
Total	$ 12,865,546	$ 1,323,017

15. Acquisition of Bayfield Design Inc.

On August 3, 2021, D2L Corporation, a subsidiary of the Company, acquired a substantial portion of the assets (the “Purchased Assets”) of Bayfield Design, including Bayfield Design’s elementary school course content, software and related intellectual property, and offered employment to most of its employees (the "Bayfield Acquisition"). In accordance with IFRS 3, this acquisition was accounted for as a business combination.

John Baker, the Company's CEO, had a minority interest in, and other business dealings with, Bayfield Design, which was controlled by family members of John Baker. The Bayfield Acquisition was approved by the independent members of the Board of Directors, with Melissa Howatson, the Company’s CFO, and John Baker abstaining, following declaration by John Baker of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Bayfield Acquisition.

Bayfield Design created online learning experiences, including a variety of online courses for organizations across North America. The Bayfield Acquisition allows the Company to increase its level of control over existing and future Bayfield product offerings and course content, thereby supporting a more comprehensive solution offering to the Company’s educational customers.

On the closing of the transaction, the reseller agreement between the Company and Bayfield Design was cancelled, and all amounts of prepaid royalty, fees and amounts owing by Bayfield Design to the Company under such agreement ceased to be owing, and Bayfield Design ceased to have any rights under the agreement.

The consideration transferred for the Bayfield Acquisition was $12,706,883 (15,900,000 CAD). Consideration transferred consisted of: (i) cash of $9,590,100 (12,000,000 CAD), of which $639,340 (800,000 CAD) was paid on closing, $879,092 (1,100,000 CAD) was payable on November 15, 2021, and a promissory note was issued for the remaining $8,071,668 (10,100,000 CAD) to be repaid on the earlier of the date of completion of an IPO, or the first anniversary of the closing date; and (ii) forgiveness of the prepaid royalty, fees and amounts owing by Bayfield Design to D2L of $3,116,783 (3,900,000 CAD).

D2L Corporation repaid the promissory note on November 3, 2021 using cash of $4,218,708 (5,310,000 CAD) and applying $3,852,960 (4,790,000 CAD) of the remaining balance of the promissory note on the occurrence of the IPO to the Shareholder Loan owing by 2416535 to D2L Corporation. The remaining consideration payable was fully repaid in cash on November 15, 2021.

15. Acquisition of Bayfield Design Inc. (continued):

The following table presents the purchase price allocation based on the consideration transferred to Bayfield Design as at the closing date of the acquisition (in U.S. dollars):

Separately identifiable net assets acquired:

Property and equipment	$ 88,708
Course content	5,330,497
Software	383,604
Less: deferred tax liability	(706,291)
	$ 5,096,518
Goodwill	7,610,365
Expected fair value of net assets acquired	$ 12,706,883

The goodwill is attributable to synergies and the estimated fair value of an assembled workforce. The entire goodwill balance will be deductible for tax purposes.