Consolidated Financial Statements
(In U.S. dollars)

D2L INC.

And Independent Auditors' Report thereon

Years ended January 31, 2023 and 2022

KPMG LLP
Vaughan Metropolitan Centre
Suite 1400
100 New Park Place
Vaughan, Ontario
L4K 0J3
Telephone (905) 265 5900
Fax (905) 265 6390
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of D2L Inc.

Opinion

We have audited the consolidated financial statements of D2L Inc. (the Entity), which comprise:

- the consolidated balance sheets as at January 31, 2023 and January 31, 2022
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 31, 2023 and January 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended January 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Evaluation of standalone selling prices ("SSP") of multiple performance obligations in contracts with customers

Description of the matter

We draw attention to Notes 1(d) and 2(a) to the financial statements. The Entity has recognized revenue of $168.4 million. Many of the Entity's contracts with customers contain multiple performance obligations. Individual performance obligations are accounted for separately if they are distinct. The overall methodology used to determine the SSP for each distinct performance obligation requires significant judgements and estimates within a contract with a customer. The methodology used to determine the SSP depends on the nature of the products and services and how they are priced in contracts with customers. The Entity determines the SSP based on its overall pricing objectives by reviewing its significant pricing practices, including discounting practices, the customer type, price lists and historical selling prices. This allocation affects the amount and timing of revenue recognized for each performance obligation.

Why the matter is a key audit matter

We identified the evaluation of standalone selling prices of multiple performance obligations in contracts with customers as a key audit matter. There was a significant risk of material misstatement relating to the overall methodology used to determine SSP for each distinct performance obligation within a contract with a customer. Significant auditor judgment was required to evaluate the results of our audit procedures due to the significant judgments and estimates associated with the determination of the SSP for each distinct performance obligation.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the appropriateness of the methodology used to determine the SSP by comparing it to pricing patterns in customer contracts, historical methodologies used by the Entity, and general practices in the Entity's industry.

For a selection of new customer contracts with multiple performance obligations, we examined the key terms and assessed the allocation of the transaction price to each distinct performance obligation based on its respective SSP derived from the underlying methodology.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Anuj Madan.

Vaughan, Canada

April 4, 2023

D2L INC.

Consolidated Balance Sheets
(In U.S. dollars)
As at January 31, 2023 and January 31, 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 110,732,236	$ 114,675,495
Trade and other receivables (note 4)	20,894,794	26,155,906
Uninvoiced revenue (note 5(b))	2,107,015	2,253,146
Prepaid expenses	8,183,390	7,930,462
Deferred commissions (note 5(d))	4,487,043	3,711,334
	146,404,478	154,726,343
Non-current assets:		
Other receivables (note 4)	193,036	–
Prepaid expenses	122,469	178,585
Deferred income taxes (note 16)	189,178	139,101
Right-of-use assets (note 9)	11,205,371	1,323,017
Property and equipment (note 6)	4,287,095	2,323,708
Deferred commissions (note 5(d))	6,849,779	7,510,242
Intangible assets (note 7)	288,099	5,537,024
Goodwill (note 8)	7,070,432	7,474,647
Total assets	$ 176,609,937	$ 179,212,667
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,450,767	$ 24,340,115
Deferred revenue (note 5(c))	85,662,830	82,915,871
Lease liabilities (note 9)	1,127,600	1,199,013
Provisions (note 11)	–	3,265,449
	110,241,197	111,720,448
Non-current liabilities:		
Deferred income taxes (note 16)	398,906	418,403
Lease liabilities (note 9)	11,878,556	693,921
	12,277,462	1,112,324
	122,518,659	112,832,772
Shareholders' equity:		
Share capital (note 13):	357,639,824	354,277,986
Additional paid-in capital	46,084,161	41,686,794
Accumulated other comprehensive loss	(5,001,805)	(3,330,708)
Deficit	(344,630,902)	(326,254,177)
	54,091,278	66,379,895
Subsequent events (note 24)		
Commitments and contingencies (note 17)		
Related party transactions (note 19)		
Total liabilities and shareholders' equity	$ 176,609,937	$ 179,212,667

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

(signed) John Baker, Director

(signed) J. Ian Giffen, Director

D2L INC.

Consolidated Statements of Comprehensive Loss
(In U.S. dollars)
Years ended January 31, 2023 and 2022

	2023	2022
Revenue:		
Subscription and support	$ 145,938,597	$ 134,688,176
Professional services and other	22,457,819	17,191,887
	168,396,416	151,880,063
Cost of revenue:		
Subscription and support[1]	46,271,187	43,962,815
Professional services and other[1]	14,354,963	19,970,476
	60,626,150	63,933,291
Gross profit	107,770,266	87,946,772
Expenses:		
Sales and marketing[1]	55,010,030	65,404,852
Research and development[1]	43,067,814	46,599,481
General and administrative[1]	25,619,759	50,656,674
Impairment loss on intangible assets	4,474,370	–
	128,171,973	162,661,007
Loss from operations	(20,401,707)	(74,714,235)
Interest and other income (expenses):		
Interest expense	(716,342)	(295,175)
Interest income	1,335,965	170,143
Loss on redeemable convertible preferred shares	–	(22,028,109)
Foreign exchange gain (loss)	1,839,447	(949,755)
	2,459,070	(23,102,896)
Loss before income taxes	(17,942,637)	(97,817,131)
Income taxes (recovery) (note 16):		
Current	503,662	245,446
Deferred	(69,574)	(409,500)
	434,088	(164,054)
Loss for the year	(18,376,725)	(97,653,077)
Other comprehensive gain (loss):		
Foreign currency translation gain (loss)	(1,671,097)	859,751
Comprehensive loss	$ (20,047,822)	$ (96,793,326)
Loss per share – basic (note 14)	$ (0.35)	$ (2.88)
Loss per share – diluted (note 14)	(0.35)	(2.88)
Weighted average number of common shares – basic (note 14)	53,029,605	33,918,112
Weighted average number of common shares – diluted (note 14)	53,029,605	33,918,112

[1] For the years ended January 31, 2023 and 2022, these expenses were impacted by non-cash, stock-based compensation expenses of $7,737,902 and $68,821,936, respectively, which affects the year-over-year comparisons. See note 15 for additional details.

See accompanying notes to the consolidated financial statements.

D2L INC.

Consolidated Statements of Changes in Shareholders' Equity
(In U.S. dollars)
Years ended January 31, 2023 and 2022

	Share Capital Shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
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	1,543,462	17,932,504	(6,502,427)	–	–	11,430,077
Stock-based compensation (note 15)	–	–	68,821,936	–	–	68,821,936
Conversion of Series A and Series B Preferred shares, Class A common shares, Class O common shares and Class T shares to Subordinate Voting Shares and Multiple Voting Shares[1]	19,381,248	266,034,420	(65,822,119)	–	–	200,212,301
Issuance of Subordinate Voting Shares upon IPO	5,489,757	75,069,071	–	–	–	75,069,071
Share issuance costs	–	(5,229,322)	–	–	–	(5,229,322)
Issuance of Subordinate Voting Shares on exercise of options	29,267	253,680	(95,967)	–	–	157,713
Other comprehensive income	–	–	–	859,751	–	859,751
Loss for the year	–	–	–	–	(97,653,077)	(97,653,077)
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	994,959	(368,688)	–	–	626,271
Issuance of Subordinate Voting Shares on settlement of restricted share units	113,804	2,366,879	(2,971,847)	–	–	(604,968)
Stock-based compensation (note 15)	–	–	7,737,902	–	–	7,737,902
Other comprehensive loss	–	–	–	(1,671,097)	–	(1,671,097)
Loss for the year	–	–	–	–	(18,376,725)	(18,376,725)
Balance, January 31, 2023	53,146,530	$357,639,824	$ 46,084,161	$ (5,001,805)	$ (344,630,902)	$ 54,091,278

[1] Immediately prior to the closing of the IPO, the Subordinate Voting Shares issued to 2416535 Ontario Inc. ("2416535") were exchanged for an equal number of Multiple Voting Shares pursuant to a share exchange agreement entered into between the Company and 241653 as part of the share capital reorganization outlined in Note 13(a).

See accompanying notes to the consolidated financial statements.

D2L INC.

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

Years ended January 31, 2023 and 2022

	2023	2022
Operating activities:		
Loss for the year	$ (18,376,725)	$ (97,653,077)
Items not involving cash:		
Depreciation of property and equipment (note 6)	1,506,222	1,505,476
Depreciation of right-of-use assets (note 9)	2,138,765	1,570,267
Amortization of intangible assets (note 7)	598,545	423,396
Impairment loss on intangible assets	4,474,370	–
Fair value loss on redeemable convertible preferred shares	–	22,028,109
Stock-based compensation (note 15)	7,737,902	68,821,936
Loss on disposal of right-of-use assets	–	14,543
Net interest (income) expense	(619,623)	125,032
Income tax expense	434,088	(164,054)
Changes in operating assets and liabilities:		
Trade and other receivables	4,485,203	(11,440,504)
Uninvoiced revenue	115,296	881,396
Prepaid expenses	(645,246)	(4,829,078)
Deferred commissions	(584,204)	(1,674,427)
Accounts payable and accrued liabilities	23,867	2,815,053
Provisions	(3,265,449)	3,265,449
Deferred revenue	4,615,107	14,790,210
Right-of-use assets and lease liabilities	134,720	(6,880)
Interest received	1,335,965	170,143
Interest paid	(83,779)	(133,309)
Income taxes paid	(245,675)	(397,430)
Cash flows from operating activities	3,779,349	112,251
Financing activities:		
Payment of lease liabilities (note 9(b))	(1,651,520)	(2,349,105)
Proceeds from exercise of stock options	626,271	11,587,790
Taxes paid on settlement of restricted share units	(604,968)	–
Borrowings on credit facility (note 10)	–	7,000,003
Repayments to credit facility (note 10)	–	(7,000,003)
Proceeds from issuance of Subordinate Voting Shares upon IPO (note 13(a))	–	75,069,071
Share issuance costs (note 13(a))	–	(5,229,322)
Net proceeds from Secondary Offering (note 13(a))	–	42,984,983
Remittance of taxes withheld on Secondary Offering (note 13(a))	–	(34,996,572)
Secondary Offering funds applied towards Shareholder Loan on behalf of shareholder (note 1(e))	–	(7,988,411)
Cash flows from (used in) financing activities	(1,630,217)	79,078,434
Investing activities:		
Purchase of property and equipment (note 6)	(3,672,349)	(795,958)
Issuance of Shareholder Loan (note 19(d))	–	(16,143,854)
Repayment of Shareholder Loan (note 19(d))	–	12,290,894
Acquisition of business from related party (note 23)	–	(5,566,118)
Cash flows used in investing activities	(3,672,349)	(10,215,036)
Effect of exchange rate changes on cash and cash equivalents	(2,420,042)	395,902
Increase (decrease) in cash and cash equivalents	(3,943,259)	69,371,551
Cash and cash equivalents, beginning of year	114,675,495	45,303,944
Cash and cash equivalents, end of year	$ 110,732,236	$ 114,675,495

See accompanying notes to the consolidated 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 137 Glasgow Street, Suite 560, Kitchener, ON, Canada, N2G 4X8. 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.

1. Basis of presentation:

(a) Statement of compliance and consolidation:

The consolidated financial statements are presented in United States ("U.S.") dollars (unless otherwise indicated) and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issuance by the Board of Directors on April 4, 2023.

(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 prior to its dissolution on November 10, 2022; 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.

(c) Seasonality:

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.

1. Basis of presentation (continued):

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity 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.

Estimates and judgments include, but are not limited to: identification of performance obligations and the determination of standalone selling price ("SSP") in contracts with multiple performance obligations; uncertain tax positions and the recoverability of deferred tax assets; valuation of trade and other receivables; the valuation of share-based payments for stock options; the fair value of acquired intangible assets; impairment of non-financial assets; and initial measurement of lease liabilities.

Identification of performance obligations and the determination of SSP in contracts with multiple performance obligations:

Many of the Company's contracts with customers contain promises to deliver multiple products and services. Determining whether such bundled products and services are considered (i) distinct performance obligations that should be separately recognized, or (ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require judgment. In general, the Company's professional services are capable of being distinct as they could be performed by third party service providers and do not involve significant customization.

The overall methodology used to determine the SSP for each distinct performance obligation requires significant judgements and estimates within a contract with a customer. The methodology used to determine the SSP depends on the nature of the products and services and how they are priced in contracts with customers. This allocation affects the amount and timing of revenue recognized for each performance obligation. Refer to note 2(a) for additional information on the assumptions and estimates used.

1. Basis of presentation (continued):

Uncertain tax positions and recoverability of deferred tax assets:

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. The recognition of deferred tax assets requires the Company to assess future taxable income available to utilize deferred tax assets related to deductible or taxable temporary differences. The Company considers the nature and carry-forward period of deferred tax assets, the Company's recent earnings history and forecast of future earnings in performing this assessment. The actual deferred tax assets realized may differ from the amount recorded due to factors having a negative impact on operating results of the Company and lower future taxable income. Refer to note 16 for additional information on the assumptions and estimates used.

Trade and other receivables:

The recognition of trade and other receivables and loss allowances requires the Company to assess credit risk and collectability. The Company considers historical trends and any available information indicating a customer could be experiencing liquidity or going concern problems and the status of any contractual or legal disputes with customers in performing this assessment.

Valuation of share-based payments for stock options:

The Company uses the Black-Scholes valuation model to determine the fair value of equity settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield, the risk-free interest rate and the forfeiture rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate. Refer to note 15 for additional information on the assumptions and estimates used.

1. Basis of presentation (continued):

Fair value of acquired intangible assets

The Company estimates the fair value of course content acquired in a business combination based on the present value of expected future cash flows. The Company estimates the fair value of software acquired in a business combination based on the estimated time and hourly costs expected to be incurred to replace the acquired software intangible asset. These valuation techniques involve significant judgement as a result of a high degree of subjectivity and estimation uncertainty associated with the significant assumptions used to determine the fair value of the acquired intangible assets at the acquisition date. The assumptions related to future cash flows, estimated time and hourly costs required to replace the acquired software intangible asset, migration rates, and discount rates.

Impairment of non-financial assets

When non-financial assets are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates. The recoverable amount is based on the greater of internal estimates of value-in-use calculations or the fair value of the assets less costs to sell which are determined using discounted cash flow models. Key assumptions on which management has based its determination of value-in-use include an estimated discount rate and long-term growth rate.

Initial measurement of lease liabilities

The Company applies judgments in determining the discount rate used to measure the lease liability at the commencement date. The discount rate is estimated using the Company's incremental borrowing rate, which reflects the interest that the Company would have to pay to borrow the funds necessary to obtain a similar asset at a similar term, with a similar security, in a similar economic environment.

The Company applies judgments in determining the lease term for certain leases which contain extension or termination options. Judgement is required in the determination of whether it is reasonably certain that these options will be exercised, and therefore reflected in the lease term for purposes of calculating the lease liability and right-of-use asset.

1. Basis of presentation (continued):

(e) Filing of prospectus and initial public offering:

On October 28, 2021, the Company filed a prospectus with the security regulatory authorities in each of the provinces and territories of Canada in connection with an Initial Public Offering ("IPO") of subordinate voting shares ("Subordinate Voting Shares") issued from treasury of the Company and a secondary offering of Subordinate Voting Shares by the Employee Trust (the "Secondary Offering"), subject to the terms and conditions of an underwriting agreement entered into on October 27, 2021 (collectively, the "Offering").

On November 3, 2021, the Offering was closed. The Company's Subordinate Voting Shares began trading on the Toronto Stock Exchange ("TSX") under the symbol "DTOL" on the closing date.

The principal reason for the IPO was to increase the Company's capitalization and financial flexibility, increase the Company's visibility in the marketplace and create a public market for the Subordinate Voting Shares. The net proceeds received by the recipients of the Secondary Offering were used in part to repay the Shareholder Loan disclosed in note 19(d). The Company did not receive any additional proceeds from the Secondary Offering. The balance of the proceeds were used to fund the payment of income tax and other statutory deductions required to be withheld and remitted by the Employee Trust to its beneficiaries in connection with the distribution of the Subordinate Voting Shares, excluding the Subordinate Voting Shares sold pursuant to the Secondary Offering as described in the filed prospectus.

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Revenue recognition:

The Company generates revenue from two primary sources: (i) subscription and support revenue, which is comprised of fees from customers accessing the Company's e-Learning solutions and from customers purchasing additional support beyond that included in the basic subscription fees; and (ii) professional services and other revenue, which is comprised of fees from consultation services to support the implementation of, integration of and training related to the Company's e-Learning solutions. Revenue is recognized when control of these services is transferred to the Company's customers, in an amount that reflects the total transaction price as allocated to the performance obligations according to their relative SSP.

2. Significant accounting policies (continued):

The Company determines revenue recognition through application of the following steps:

- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The following describes the nature of the Company's primary types of revenue and the revenue recognition policies and significant payment terms as they pertain to the types of transactions the Company enters into with customers.

Subscription and support revenue:

Subscription and support revenue is derived from fees earned from customers for accessing the Company's e-Learning solutions, from purchases of additional product support, and from fees earned for usage beyond contracted user counts. The subscription and support agreement term length typically range from 12 to 60 months. The terms of the Company's subscriptions do not provide customers the right to take possession of the software. Accordingly, subscription and support revenue is generally recognized ratably over the contract term. The Company's contracts with customers typically include a fixed amount of consideration and are generally non-cancelable, or cancelable with penalty, and without any refund-type provisions.

Amounts that have been invoiced are recorded in trade receivables and in deferred revenue and recognized as revenue when the revenue recognition criteria have been met. Amounts not yet invoiced but for which revenue recognition criteria have been met are recorded as a contract asset in uninvoiced revenue on the consolidated balance sheets and as revenue on the consolidated statements of comprehensive loss.

2. Significant accounting policies (continued):

Professional services and other revenue:

Professional services and other revenue includes fees from consultation services to support the implementation of, integration of, and training related to the eLearning solutions, as well as complementary services such as content creation and learning consultancy, and, occasionally, termination fees due when contracts are cancelled for convenience. These professional services are either delivered at or around the inception of the contract with the customer when the subscription and support agreement commences, or as follow-on services during the term of the subscription and support agreement. The Company's professional services are typically considered distinct from the related subscription and support services as the promise to transfer the subscription can be fulfilled independently from the promise to deliver the professional services. (i.e., customer receives standalone functionality from the subscription and the customer obtains the intended benefit of the subscription without the professional services). The Company recognizes the revenue over time based on services rendered.

Contracts with multiple performance obligations:

Many of the Company's contracts with customers contain multiple performance obligations. Individual performance obligations are accounted for separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative SSP basis. The SSP reflects the price the Company would charge for a specific product or service if it was sold separately in similar circumstances and to similar customers. The Company typically establishes a narrow SSP range for its products and services and assesses this range on a periodic basis or when material changes in facts and circumstances warrant a review. If the SSP is not directly observable, then the Company estimates the amount using either the expected cost plus a margin or residual approach. Estimating SSP requires judgment that could impact the classification, amount, and timing of revenue recognized.

The Company determines the SSP based on its overall pricing objectives by reviewing its significant pricing practices, including discounting practices, the customer type, price lists and historical selling prices. SSP is analyzed on a periodic basis to identify if the Company has experienced significant changes in its selling practices.

2. Significant accounting policies (continued):

(b) Cost of revenue:

Cost of revenue primarily consists of costs related to providing the Company's cloud-based applications and the delivery of support and professional services. Significant expenses included in cost of revenue include web hosting fees and networking expenses, employee wages and benefits expenses, and payment to outside service providers.

(c) Deferred commissions:

The Company defers commission costs that are incremental and directly related to the acquisition of customer contracts, provided they are expected to be recoverable. Commission costs are accrued and capitalized upon execution of the sales contract by the customer. Payments to partners and sales personnel are made monthly following the execution of the sales contracts. Deferred commissions are amortized on a straight-line basis over a period of benefit that the Company has determined to be five years. The Company determined the period of benefit by taking into consideration its customer contracts and customer life, its technology and other factors. Where the expected amortization period for all performance obligations in a customer contract is one year or less, the Company applies a practical expedient and related commission costs are expensed when incurred.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term highly liquid investments with original maturities of three months or less from the date of acquisition.

(e) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables are initially measured at the transaction price. All other financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the statement of comprehensive loss.

2. Significant accounting policies (continued):

Financial assets:

All financial assets are recognized and de-recognized on a trade date basis, the date on which the Company commits to purchase or sell the investment. The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Uninvoiced revenue	Amortized cost

Amortized cost:

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment and any gain or loss on de-recognition are recognized in the statement of comprehensive loss.

Impairment of financial assets:

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

2. Significant accounting policies (continued):

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities:

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification under IFRS 9
Accounts payables and accrued liabilities	Amortized cost

Amortized cost:

Financial liabilities at amortized cost are measured using the effective interest rate method.

FVTPL:

A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative, or it is designated as such, on initial recognition. Financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. The Company assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Company first becomes party to the contract.

De-recognition of financial liabilities:

The Company de-recognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

(f) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated asset's useful life. The estimated useful lives by asset classification are as follows:

2. Significant accounting policies (continued):

Furniture and equipment	5 years
Computer hardware and software	3 - 5 years
Leasehold improvements	Over lesser of useful life or term of lease

(g) Intangible assets:

Certain of the Company's intangible assets, including course content and software, were acquired in a business combination. These intangible assets are recorded at their fair values at the acquisition date. After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses. Intangible assets with an indeterminable benefit period are not amortized. Amortization is based on the estimated useful lives using the straight-line method and the following periods:

Acquired technology	2 - 5 years
Domains	Indefinite life
Patents	Remaining life of patent
Course content	10 years
Software	5 years

(h) Impairment of long-lived assets:

The Company evaluates its property and equipment and intangible assets for impairment annually, or more frequently when events or changes in circumstances indicate that their carrying amount may not be recoverable. This includes but is not limited to: significant adverse changes in business climate, market conditions, current period cash flow or operating losses, or other events that indicate an asset's carrying amount may not be recoverable. If the Company determines that the carrying amount of an asset or an asset group is not recoverable based on its estimated undiscounted future cash flows expected to be generated from the use of the asset or asset group and its eventual disposal, the Company records an impairment loss equal to the excess of carrying amount over the estimated fair value of the asset or asset group. Any impairment losses are recognized immediately in the statement of comprehensive loss.

2. Significant accounting policies (continued):

(i) Goodwill:

Goodwill arises from a business combination as the excess of the consideration transferred over the identifiable net assets acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit that is expected to benefit from the related business combination. The Company as a whole has been assessed as a single cash-generating unit. The cash-generating unit is tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized immediately in the statement of comprehensive loss. Any impairment loss in respect of goodwill is not reversed.

(j) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Significant accounting policies (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(k) Long-term debt:

Issuance costs of long-term debt obligations are capitalized and amortized to expense over the term of the related liability using the effective interest method or straight-line method where it reasonably approximates the effective interest method. Long-term debt is accounted for at amortized cost. Amounts due within one year are classified as current liabilities and the remaining balance as long-term.

2. Significant accounting policies (continued):

(l) Stock-based compensation:

The Company's stock-based compensation plans provide for the issuance of awards to employees, non-employee directors and certain service providers. The expense relating to awards under these plans is recognized over the vesting period in which the applicable service and/or performance conditions are fulfilled. Each tranche of an award with a distinct vesting period is accounted for separately. The cumulative expense recognized at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of awards that will ultimately vest. Estimated forfeitures are based on historical forfeiture rates and expectations of future forfeiture rates. No expense is recognized for awards that do not ultimately vest because service and/or non-market performance conditions are not met.

The cost of an equity-settled award is measured at fair value at the grant date and recognized as an expense, together with a corresponding increase in additional paid-in capital, over the vesting period. When shares are issued upon the exercise or redemption of an equity-settled award, the amount of proceeds, if any, together with the amount recorded in additional paid-in capital in respect of the award, is recorded to share capital.

The cost of a cash-settled award is initially measured at fair value at the grant date and remeasured to fair value at each reporting date until settlement. The cost is recognized as an expense, together with a corresponding liability, over the vesting period.

(m) Employee stock trust:

Prior to the closing of the Company's IPO on November 3, 2021, the Company controlled for financial reporting purposes the Employee Stock Trust whereby the trustees of the trust were permitted to make distributions upon a triggering event, such as an IPO or sale of the Company. As any triggering event was not probable until it occurred, compensation expense pursuant to this trust was recorded immediately prior to the triggering event occurring. The Employee Trust owned Class T shares of D2L Inc. which were eliminated on consolidation.

Immediately prior to the closing of the IPO on November 3, 2021, each of the Class T shares, held by the Employee Trust as treasury stock, were converted in accordance with its terms for a fraction of a Subordinate Voting Share. The Employee Trust was then dissolved on November 3, 2021.

2. Significant accounting policies (continued):

(n) Income taxes:

Current and deferred income taxes are recognized as an expense or recovery in the statement of comprehensive loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive loss or directly in shareholders' deficiency), in which case the tax is also recognized outside of profit or loss.

Current income tax:

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Deferred income tax:

Deferred income tax assets and liabilities are recorded for the temporary differences between transactions that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the years when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. Significant accounting policies (continued):

Income tax uncertainties:

If there is uncertainty about an income tax treatment, then the Company considers whether it is probable that a tax authority will accept the entity's tax treatment included or planned to be included in its tax filing based on its technical merits. If probable, it measures current and deferred taxes consistently with the tax treatment used or planned to be used in the income tax filing. If it is not probable that the tax authority will accept its tax treatment, then the Company reflects the effect of that tax uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, the Company uses either the most likely amount or the expected value method—whichever better predicts the resolution of the uncertainty.

(o) Foreign currency translation:

These consolidated financial statements are presented in U.S. dollars which is the functional currency of the Company and its subsidiaries except where otherwise noted.

Foreign currency transactions:

The functional currency of the Company's significant, wholly-owned subsidiaries is generally the local currency. Transactions in currencies other than the functional currency are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing at that date. Exchange differences on monetary items are recognized in the statement of comprehensive loss in the period in which they arise. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to the functional currency of the subsidiary at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the rates at the date of the transaction.

2. Significant accounting policies (continued):

Foreign operations:

The consolidated financial statements of the Company include the accounts of its foreign, wholly-owned subsidiaries: D2L Corporation, D2L Europe Ltd., D2L EU B.V., D2L Australia Pty Ltd., D2L Asia Pte Ltd., D2L Brasil Solucoes de Tecnologia para Educacao Ltda, and D2L Commerce Inc., translated into U.S. dollars. The financial statements of D2L Corporation and D2L Commerce Inc. are measured using the Canadian dollar as their functional currency; the financial statements of D2L Europe Ltd. are measured using the British pound sterling as its functional currency; the financial statements of D2L EU B.V. are measured using the Euro as its functional currency; the financial statements of D2L Australia Pty Ltd. are measured using the Australian dollar as its functional currency; the financial statements of D2L Asia Pte Ltd. are measured using the Singapore dollar as its functional currency; and the financial statements of D2L Brasil Solucoes de Tecnologia para Educacao Ltda is measured using the Brazilian Real as its functional currency.

Assets and liabilities of non-U.S. dollar functional currency subsidiaries have been translated into U.S. dollars using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated using the average monthly exchange rates for the reporting period. All resultant exchange differences arising, if any, are recognized in other comprehensive loss and accumulated in shareholders' equity.

(p) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The expense relating to any provision is accounted for in the consolidated statements of comprehensive loss, net of any reimbursement.

If the known expected settlement date exceeds 12 months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense in the consolidated statements of comprehensive loss. Provisions are reviewed periodically and adjusted as appropriate.

2. Significant accounting policies (continued):

(q) Research and development costs:

Research and development costs are expensed as incurred unless the criteria for capitalization are met. No research or development costs have been capitalized to date.

(r) Government grants and investment tax credits:

Government grants and investment tax credits for scientific research and experimental development related to current expenses, if any, are recorded as a reduction of the related expenses in the period to which the claim relates. Government grants and investment tax credits, if any, are recognized when there is reasonable assurance that: the Company has complied with, and will continue to comply with, all conditions necessary to obtain the grants or credits; and that the grants or credits have been or will be received.

(s) Employee benefits:

The Company maintains defined contribution plans for which it pays fixed contributions to administered pension plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay the benefits to all employees. Obligations for contributions to defined contribution pension plans are recognized as employee compensation as the services are provided.

(t) Business combinations:

The Company accounts for business combinations using the acquisition method. Goodwill arising on acquisitions is measured as the fair value of the consideration transferred less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

The Company uses its best estimates and assumptions to reasonably value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the statement of comprehensive loss.

2. Significant accounting policies (continued):

(u) Equity issuance costs:

Equity issuance costs include all incremental costs that are attributable directly to equity issuance transactions. The Company has elected to capitalize eligible equity issuance costs as a deduction from Share Capital.

(v) Recently issued accounting pronouncements:

<u>New and amended standards and interpretations adopted by the Company</u>

Effective February 1, 2022, the Company adopted the following new and amended accounting standards.

- Amendments to IAS 16, Property, Plant and Equipment, effective for annual periods beginning on or after January 1, 2022, which clarify the accounting for net proceeds from selling any items produced while bringing an item of property, plant and equipment into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendment had no impact on the Company's consolidated financial statements.

- Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment had no impact on the Company's consolidated financial statements.

<u>New and amended standards and interpretations issued not yet effective</u>

The IASB has issued the following new and amended standards and interpretations that will become effective in a future year and could have an impact on the consolidated financial statements in future periods. The Company is currently assessing the impact of the following new and amended standards and interpretations and is not expecting any significant impacts on its consolidated financial statements.

- Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023.

(In U.S. dollars)

2. Significant accounting policies (continued):

- Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"), and IFRS Practice Statement 2, that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.

- Amendments to IAS 12, Income Taxes, which clarify how to account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

- Amendments to IAS 1, which provide a more general approach to the classification of liabilities as current or non-current based on the contractual arrangements in place at the reporting date. The amendments are effective for annual periods beginning on or after January 1, 2024.

- Amendments to IFRS 16, which include additional requirements to explain how a company accounts for a sale and leaseback after the date of the transaction. The amendments are effective for annual periods beginning on or after January 1, 2024.

3. Cash and cash equivalents:

Cash equivalents are comprised of investments in money market mutual funds. Cash and cash equivalents are recorded at amortized cost.

4. Trade and other receivables:

The trade and other receivables, net of allowance, are as follows:

	2023	2022
Trade receivables	$ 18,316,886	$ 24,197,051
Allowance for doubtful accounts	(276,329)	(323,459)
Net trade receivables	18,040,557	23,873,592
Other receivables	3,047,273	2,282,314
Trade and other receivables	$ 21,087,830	$ 26,155,906
Comprised of:		
Current	$ 20,894,794	$ 26,155,906
Non-current	193,036	–

4. Trade and other receivables:

The Company typically invoices its customers annually in advance upon execution of the contract or subsequent renewals, and its invoices are typically due within 30 days from the invoice date. For all customers, the Company bases its allowance for doubtful accounts on its historical collection experience and an evaluation of the potential risk of loss associated with specific accounts. When the Company becomes aware of circumstances that may decrease the likelihood of collection, it records a specific allowance against amounts due, which reduces the receivables to the amount the Company reasonably believes will be collected. The Company's general and administrative expenses during the year include bad debt expense of $561,644 (2022 - $285,295). Historically, actual write-offs for uncollectible accounts have not significantly differed from the Company's estimates. The Company derecognizes previously recorded receivables and the associated allowances when they are deemed permanently uncollectible.

Other receivables are comprised primarily of income tax receivables, and government grant receivables. All receivables are classified as current for the year ended January 31, 2023, with the exception of a portion of government grant receivables that will not be collected within the next 12 months. The Company assesses the need for an allowance against other receivables at each reporting date. In each period presented, the Company has concluded that the other receivables balances are collectible and accordingly have not recorded an allowance.

5. Revenue from contracts with customers:

(a) Transaction price allocated to the remaining performance obligations:

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancellable amounts that will be invoiced and recognized as revenue in future periods.

As at January 31, 2023, the total remaining non-cancellable performance obligations under contracts with customers was approximately $368,000,000. The Company expects to recognize revenue on approximately 41% of these remaining performance obligations over the following 12 months and 26% in the 12 months thereafter, with the balance to be recognized beyond 24 months.

(In U.S. dollars)

5. Revenue from contracts with customers (continued):

(b) Uninvoiced revenue:

Uninvoiced revenue, which is a contract asset, relates to revenue recognized when transferred services exceed the amount billed for the customer contract. Uninvoiced revenue balances typically exist only for contracts with non-standard payment terms where revenue recognition may occur in advance of the Company's right to bill.

The following table presents changes in uninvoiced revenue:

	2023	2022
Balance, beginning of year	$ 2,253,146	$ 3,090,154
Amounts transferred to trade receivables from the balance at the beginning of the year	(2,253,146)	(3,090,154)
Revenue in excess of billings, net of amounts transferred to trade receivables	2,107,015	2,253,146
Balance, end of year	$ 2,107,015	$ 2,253,146

(c) Deferred revenue:

Deferred revenue, which is a contract liability, consists of billings or payments received in advance of revenue recognition and is recognized as the revenue recognition criteria are met. The Company generally invoices its customers annually in advance. Accordingly, the deferred revenue balance does not represent the total contract value of multi-year, non-cancellable subscription agreements.

Revenue recognized that was included in the deferred revenue balance at the beginning of the years ended January 31, 2023 and 2022 was $80,050,048 and $62,520,960, respectively.

(In U.S. dollars)

5. Revenue from contracts with customers (continued):

(d) Deferred commissions:

The following table presents the changes in deferred commission contract assets during the periods:

	2023	2022
Balance, beginning of year	$ 11,221,576	$ 9,616,003
Additions	4,817,805	5,668,787
Amortization to sales and marketing expense	(4,070,352)	(3,963,345)
Impairment	(170,677)	(61,366)
Effects of movement in exchange rates	(461,530)	(38,503)
Balance, end of year	$ 11,336,822	$ 11,221,576
Comprised of:		
Current	$ 4,487,043	$ 3,711,334
Non-current	6,849,779	7,510,242

For the periods presented, impairment was recorded on deferred commission balances that relate to customers whose agreements were terminated in the year.

(In U.S. dollars)

6. Property and equipment:

	Computer hardware/ software	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance, January 31, 2021	$ 5,535,979	$ 1,826,721	$ 5,703,894	$ 13,066,594
Additions	763,341	–	32,617	795,958
Additions through acquisition (note 23)	88,708	–	–	88,708
Disposals	(68,157)	–	(8,595)	(76,752)
Effects of movement in exchange rates	4,874	928	16,195	21,997
Balance, January 31, 2022	6,324,745	1,827,649	5,744,111	13,896,505
Additions	1,103,823	334,604	2,233,922	3,672,349
Disposals	(8,985)	(796,457)	(4,805,325)	(5,610,767)
Effects of movement in exchange rates	(335,945)	(96,400)	(309,885)	(742,230)
Balance, January 31, 2023	$ 7,083,638	$ 1,269,396	$ 2,862,823	$ 11,215,857
Accumulated depreciation				
Balance, January 31, 2021	$ 4,050,979	$ 1,676,494	$ 4,421,813	$ 10,149,286
Depreciation	975,557	52,443	477,476	1,505,476
Disposals	(68,157)	–	(6,589)	(74,746)
Effects of movement in exchange rates	(12,710)	1,047	4,444	(7,219)
Balance, January 31, 2022	4,945,669	1,729,984	4,897,144	11,572,797
Depreciation	1,052,441	52,982	400,799	1,506,222
Disposals	(251)	(684,028)	(4,802,086)	(5,486,365)
Effects of movement in exchange rates	(294,440)	(93,010)	(276,442)	(663,892)
Balance, January 31, 2023	$ 5,703,419	$ 1,005,928	$ 219,415	$ 6,928,762
Carrying Amounts				
January 31, 2022	$ 1,379,076	$ 97,665	$ 846,967	$ 2,323,708
January 31, 2023	$ 1,380,219	$ 263,468	$ 2,643,408	$ 4,287,095

(In U.S. dollars)

7. Intangible assets:

	Acquired Technology	Domains	Patents	Course Content	Software	Total
Cost						
Balance, January 31, 2021	$ 1,248,520	$ 179,736	$ 253,383	$ –	$ –	$ 1,681,639
Additions through acquisition (note 23)	–	–	–	5,330,497	383,604	5,714,101
Effects of movement in exchange rates	3,861	556	784	(95,059)	(6,841)	(96,699)
Balance, January 31, 2022	1,252,381	180,292	254,167	5,235,438	376,763	7,299,041
Effects of movement in exchange rates	(67,726)	(9,750)	(13,745)	(283,123)	(20,375)	(394,719)
Balance, January 31, 2023	$ 1,184,655	$ 170,542	$ 240,422	$ 4,952,315	$ 356,388	$ 6,904,322
Accumulated amortization & Impairment						
Balance, January 31, 2021	$ 1,248,520	$ –	$ 92,400	$ –	$ –	$ 1,340,920
Amortization	--	–	18,921	366,219	38,256	423,396
Effects of movement in exchange rates	3,861	–	(33)	(5,547)	(580)	(2,299)
Balance, January 31, 2022	1,252,381	–	111,288	360,672	37,676	1,762,017
Amortization	–	–	18,116	507,042	73,386	598,544
Impairment				4,224,898	249,472	4,474,370
Effects of movement in exchange rates	(67,726)	–	(6,539)	(140,297)	(4,146)	(218,708)
Balance, January 31, 2023	$ 1,184,655	–	$ 122,865	$ 4,952,315	$ 356,388	$ 6,616,223
Carrying Amounts						
January 31, 2022	$ –	$ 180,292	$ 142,879	$4,874,766	$ 339,087	$ 5,537,024
January 31, 2023	$ –	$ 170,542	$ 117,557	$ –	$ –	$ 288,099

During the year ended January 31, 2023, the Company recognized an impairment loss of $4,474,370 (2022 - nil) on its course content assets. The recoverable amount of the assets were based on their value in use ("VIU"), which was determined by a discounted cash flow model of the assets. The VIU calculation resulted in a nil value based upon the historical results and anticipated future results derived from the intangible assets acquired from the Bayfield Acquisition.

(In U.S. dollars)

7. Intangible assets (continued):

Future amortization expense associated with definite-life intangible assets recognized as of January 31, 2023 is expected to be as follows:

2024	$	17,596
2025		17,596
2026		17,596
2027		16,116
2028 and beyond		48,653
	$	117,557

8. Goodwill:

		2023		2022
Balance, beginning of year	$	7,474,647	$	–
Acquisition of Bayfield Design Inc. (note 23)		–		7,610,365
Effects of movement in exchange rates		(404,215)		(135,718)
Balance, end of year	$	7,070,432	$	7,474,647

The annual impairment test of goodwill was performed as at November 1, 2022 using a value in use model and did not result in an impairment loss. Value in use is based on a discounted cash flow model of the cash-generating unit of the Company, to which the goodwill was allocated. The carrying value of the Company was compared with its recoverable amount (value in use) to test for impairment. No reasonably possible change in the key assumptions used in determining the recoverable amount would result in any impairment of goodwill.

(In U.S. dollars)

9. Leases:

The Company leases certain properties under non-cancellable lease agreements that relate to office space. The expected remaining lease terms are between 3 and 126 months. The Company also subleased certain properties to third parties during the years ended January 31, 2023 and 2022.

(a) As a lessee:

The following reconciles the right-of-use assets as at January 31, 2023 and 2022:

	2023	2022
Carrying amount, beginning of year	$ 1,323,017	$ 2,932,487
Additions	12,510,506	–
Modifications to lease contracts	313,735	(61,285)
Depreciation	(2,138,765)	(1,570,267)
Foreign exchange gain (loss) recorded in other comprehensive loss	(803,122)	22,082
Carrying amount, end of year	$ 11,205,371	$ 1,323,017

The following reconciles the lease liabilities as at January 31, 2023 and 2022:

	2023	2022
Carrying amount, beginning of year	$ 1,892,934	$ 4,113,744
Additions	12,645,226	–
Modifications to lease contracts	313,735	(56,838)
Lease payments	(1,651,520)	(2,349,105)
Interest expensed	626,612	161,866
Foreign exchange loss (gain) recorded in other comprehensive loss	(820,832)	23,267
Carrying amount, end of year	$ 13,006,156	$ 1,892,934
Current	$ 1,127,600	$ 1,199,013
Non-current	11,878,556	693,921

During the year ended January 31, 2023, the weighted average incremental borrowing rate used to measure the lease liability for components was 4.50% (2022 - 6%).

(In U.S. dollars)

9. Leases (continued):

Net expenses relating to short-term leases excluded from lease liabilities due to the election of the practical expedient were $325,550 for the year ended January 31, 2023 (2022 – $31,599). Variable lease payments not included in the measurement of lease liabilities were $1,254,206 for the year ended January 31, 2023 (2022 - $1,458,759).

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 consolidated financial statements and is described further in note 19(f).

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

February 1, 2023 - January 31, 2024	$ 966,900
February 1, 2024 - January 31, 2025	1,508,087
February 1, 2025 - January 31, 2026	1,573,606
February 1, 2026 - January 31, 2027	1,583,973
February 1, 2027 – July 31, 2033	10,956,246
Total future undiscounted lease payments	16,588,812
Less impact of discounting	(3,582,656)
Lease liability recorded on consolidated balance sheet	$ 13,006,156

(b) As a lessor:

For the year ended January 31, 2023, income earned from subleasing right-of-use assets was $283,902 (2022 - $653,366). For the year ended January 31, 2023, $2,594 was recognized as interest income on subleases (2022 - $33,159). As of January 31, 2023, the Company no longer subleases to third parties.

(In U.S. dollars)

10. Long-term debt:

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 WSJ Prime Rate was 3.25% as at January 31, 2022. 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.

The credit facility was subject to an adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) covenant. The credit facility required immediate repayment upon an event of default, as defined in the agreement, which included events such as a payment default, a covenant default or the occurrence of a material adverse change, as defined in the agreement. As at January 31, 2022, the Company was in compliance with the covenants.

During the year ended January 31, 2022, the Company withdrew and fully repaid $7,000,003 on the credit facility. The following amounts were included within interest expense in the consolidated statement of comprehensive loss for the years ended January 31, 2023 and 2022, respectively:

	2023	2022
Contractual interest expense	$ –	$ 75,387
Amortization of debt issuance costs	–	49,485
	$ –	$ 124,872

11. 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 January 31, 2022, the Company had recorded a provision in the amount of $3,265,449 for payment advanced by the customer. Prior to the dispute, the customer had paid the Company an additional $2,035,101 pursuant to the terms of the contract. This amount was recognized through profit and loss in prior periods.

11. Provisions (continued):

On August 16, 2022, the Company and the customer executed a full and final settlement agreement to fully resolve all claims. The Company repaid 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, and a dismissal order was granted on September 6, 2022.

12. Financial instruments:

(a) Fair value of 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 Company estimated the fair value of its financial instruments as described below:

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.

12. Financial instruments (continued):

For reporting periods prior to the IPO, the estimate of the fair value of the redeemable convertible preferred shares was supported by independent valuation reports prepared by a Chartered Business Valuator (a Level 3 measurement) on a quarterly basis. The fair value of the redeemable convertible preferred shares was measured using a Probability Weighted Expected Return Method. Under this method, an analysis of future values is performed for several estimated scenarios for a liquidity event. The value of shares was determined for each scenario at the time of each future liquidity through application of market multiples of the last twelve months revenue at liquidity and discounted back to the appropriate valuation date. The present value of the shares under each scenario was then weighted based upon the probability of each occurring to determine an indication of the value of the shares. Key unobservable inputs include underlying revenue and cash flow forecasts and the risk adjusted discount rate applied to the valuation. The estimated fair value increased as underlying revenue and cash flow forecasts increased. The estimated fair value decreased as the risk adjusted discount rate applied to the valuation increased.

(b) Currency risk:

A portion of the Company's revenue and operating costs are realized in currencies other than its functional currency. Significant currencies to which the Company has transaction exposure include the Canadian dollar, British pound sterling, and Australian dollar. Thus, the Company is exposed to currency risk on these transactions. For the year ended January 31, 2023, if those currencies had strengthened 5% against the U.S. dollar, with all other variables held constant, pre-tax income for the years would have been an estimated $4,351,226 lower (2022 - $3,607,460 lower). Conversely, if those currencies had weakened 5% against the U.S. dollar with all other variables held constant, there would be an equal, and opposite impact, on pre-tax income.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the consolidated balance sheets, the impact of which is reported as a foreign exchange gain or loss. The summary quantitative data about the Company's exposure to currency risk is as follows (in local currency):

(In U.S. dollars)

12. Financial instruments (continued):

January 31, 2023	CAD	GBP	AUD	SGD	BRL	EUR
Cash and cash equivalents	10,706,300	3,632,837	8,790,910	3,615,261	14,035,127	5,884,546
Trade and other receivables	11,070,969	2,325,246	176,655	1,429,656	808,327	7,725
Uninvoiced revenue	1,092,392	71,335	–	242,980	1,642,354	–
Accounts payable and accrued liabilities	18,262,005	1,132,829	1,227,251	232,027	603,572	6,245

January 31, 2022	CAD	GBP	AUD	SGD	BRL	EUR
Cash and cash equivalents	21,404,150	1,767,970	6,692,770	2,272,986	12,048,775	2,192,113
Trade and other receivables	7,680,207	1,983,870	1,075,726	785,800	1,797,645	1,960
Uninvoiced revenue	237,069	74,575	–	420,159	357,463	-
Accounts payable and accrued liabilities	15,182,490	1,026,821	1,322,159	271,796	669,175	11,060

The Company does not enter into arrangements to hedge its foreign currency risk exposure.

(c) Credit risk:

Financial instruments potentially exposing the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade and other receivables.

Although the Company deposits its cash with multiple reputable financial institutions, its deposits, at times, may exceed federally insured limits.

(In U.S. dollars)

12. Financial instruments (continued):

The Company maintains an allowance for doubtful accounts receivable balance. The allowance is based upon expected credit loss, with consideration of historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with problem accounts. The Company has credit risk from trade and other receivables and uninvoiced revenue. Credit risk arising from trade and other receivables and uninvoiced revenue is mitigated due to the large number of customers comprising the Company's customer base. Collectability of other receivables, comprising of income tax receivables and government grant receivables, is not considered to have significant credit risk by the Company. Activity in the allowance for doubtful accounts was as follows:

	2023	2022
Balance, beginning of year	$ 323,459	$ 377,894
Provision for uncollectible receivables	566,618	285,295
Write-offs	(613,748)	(339,730)
Balance, end of year	$ 276,329	$ 323,459

As at January 31, 2023, there were no customers that exceeded 10% of the Company's net trade receivables balance. As at January 31, 2022, one customer accounted for 26% of the net trade receivables balance, which was collected subsequent to year end.

As at January 31, 2023, the aging of net trade receivables were as follows:

	2023	2022
Current	$ 10,651,271	$ 11,727,217
Past due 1 - 30 days	4,029,274	4,712,763
Past due 31 - 60 days	2,148,282	1,319,403
Past due >60 days	1,211,730	6,114,209
Balance, end of year	$ 18,040,557	$ 23,873,592

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

12. Financial instruments (continued):

The Company manages its liquidity risk associated with its financial liabilities through the use of cash flows generated from operations, combined with strategic issuance of additional equity and availability of debt facilities, as required, to meet the capital requirements of maturing financial liabilities. As at January 31, 2023, the Company had a cash balance of $110,732,236 (2022 - $114,675,495), and trade and other receivables of $21,087,830 (2022 - $26,155,906) available to settle current liabilities (excluding deferred revenue) of $24,578,367 (2022 - $28,804,577).

The Company's accounts payable have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company continues to anticipate that its cash and cash equivalents will be sufficient to fund its anticipated cash requirements for working capital, contractual commitments, capital expenditures and operating needs for the next 12 months.

13. Share capital:

(a) Share capital reorganization:

Prior to November 2, 2021, the Company previously 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 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 were exchanged for an equal number of Multiple Voting Shares pursuant to a share exchange agreement entered into between the Company and 2416535.

On November 3, 2021, the Company completed an IPO and issued 5,489,757 Subordinate Voting Shares from treasury of the Company for a total gross consideration of $75,069,071. Share issuance costs amounted to $5,229,322. On the same day, the Secondary Offering of 3,335,243 Subordinate Voting Shares held by the Employee Trust was completed for a total gross consideration to the Employee Trust of $45,607,409, with the underwriting fees of $2,622,426 relating to their shares being paid by the selling shareholders.

(In U.S. dollars)

13. Share capital (continued):

(b) Authorized share capital as at January 31, 2023 and 2022:

- 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

- 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.

(c) Issued:

As at January 31, 2023, the Company had 25,755,942 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

As at January 31, 2022, the Company had 25,521,914 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

14. Loss per share:

Loss per share is calculated by dividing loss for the years by the weighted average number of fully paid Subordinate Voting Shares and Multiple Voting Shares outstanding throughout the years.

	2023	2022
Loss for the period	$ (18,385,967)	$ (97,653,077)
Weighted average number of outstanding shares	53,029,605	33,918,112
Loss per share - basic and dilutive	$ (0.35)	$ (2.88)

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

(In U.S. dollars)

14. 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.

15. Stock-based compensation:

Total stock-based compensation expense recognized in the Company's consolidated statements of comprehensive loss was as follows:

	2023	2022
Cost of subscription and support	$ 234,759	$ 582,609
Cost of professional services and other	134,697	7,616,654
Sales and marketing	1,276,530	20,759,246
Research and development	2,656,328	8,436,564
General and administrative	3,435,588	31,426,863
	$ 7,737,902	$ 68,821,936

Employee Trust

On March 5, 2021, certain beneficiaries of the Employee Trust exercised a total of 1,475,076 stock options for proceeds totalling $10,974,565.

The Employee Trust recognized stock-based compensation expense of $65,822,119 for the year ended January 31, 2022. The recognition of the expense was triggered by the submission of the prospectus related to the Offering on October 28, 2021, in connection with the distribution of the Subordinate Voting Shares discussed below.

Immediately prior to the closing of the Secondary Offering on November 3, 2021, each of the 8,847,059 Class T shares held by the Employee Trust as treasury stock were converted in accordance with its terms for a fraction of a Subordinate Voting Share. On closing, all the Subordinate Voting Shares held by the Employee Trust were either distributed to its beneficiaries or sold pursuant to the Secondary Offering. The Employee Trust was dissolved on November 3, 2021.

(In U.S. dollars)

15. Stock-based compensation (continued):

(a) Legacy stock option plan:

The D2L Stock Option Plan (the "Legacy Stock Option Plan"), adopted by the Company on August 24, 2012 and subject to subsequent amendment and restatement, authorized the issuance of options to purchase Class O common shares. Immediately prior to the closing of the IPO on November 3, 2021, each outstanding option to purchase a Class O common share became an option to purchase a Subordinated Voting Share, with other terms and conditions unchanged. This modification did not result in incremental fair value. Effective November 3, 2021, no further grants under the Legacy Stock Option Plan are permitted.

Outstanding stock options generally vest 25% after a one-year period from the grant date, with the remaining 75% vesting quarterly thereafter over the next 4 years and expire after 10 years.

During the year ended January 31, 2023, the Company recognized stock-based compensation expense of $570,977 (2022 – $1,682,292) related to stock options.

The Company's Legacy Stock Option Plan provides for the issuance of up to 11,200,000 options to purchase Subordinate Voting Shares. As of January 31, 2023, 2,991,307 stock options (2022 - 7,547,243) were issued and outstanding and nil (2022 - nil) remained available for grant under the Legacy Stock Option Plan. A summary of stock option activity 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
Options granted	–	–	–
Options forfeited	(4,435,712)	7.40	–
Options exercised	(120,224)	5.21	–
Balance, January 31, 2023	2,991,307	$ 5.99	4.77
Exercisable, end of year	2,448,051	$ 5.52	4.15

(In U.S. dollars)

15. Stock-based compensation (continued):

Options outstanding and options exercisable as at January 31, 2023 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	2,317,488	3.90	\$ 5.16	2,150,020
\$6.01 - \$7.00	6.50	340,686	7.69	6.50	174,385
\$7.01 - \$8.00	7.44	16,999	0.55	7.44	16,999
\$8.01 - \$9.00	8.48	81,257	7.84	8.48	36,338
\$9.01 - \$10.00	9.55	74,877	8.07	9.55	30,309
\$10.01 - \$14.00	13.77	160,000	8.51	13.77	40,000
	\$ 5.99	2,991,307	4.77	\$ 5.52	2,448,051

The Company uses the Black-Scholes pricing model to determine the fair value of stock options. The fair value of each option grant is estimated on the date of the grant. Expected volatility is determined using historical volatility of publicly-traded comparable companies, the risk-free interest rates are based on Government of Canada 10-year bond yields, and the expected term of the option is calculated based on a combination of each tranche's time to vest plus the actual or expected life of an award based on the past activity or remaining time to expiry on outstanding awards. The weighted-average grant date fair value of options granted and assumptions using the model are as follows for the periods presented:

	2023	2022
Weighted average fair value of options granted	–	\$3.91
Expected life (years)	–	6.3
Expected volatility	–	34.37%
Risk-free rate	–	0.82%
Expected dividend yield	–	–

15. Stock-based compensation (continued):

(b) Long Term Incentive Plan:

The D2L Long Term Incentive Plan (the "LTIP Plan"), adopted by the Company on November 3, 2021, authorizes the issuance of options, restricted share units ("RSUs"), performance share units ("PSUs"), stock appreciation rights ("SARs") and restricted stock to employees and certain service providers. The combined number of Subordinated Voting Shares issued or issuable under the LTIP Plan and all other stock-based compensation arrangements (including the DSU Plan discussed below but excluding the Legacy Stock Option Plan) cannot exceed ten percent of the Company's issued and outstanding Subordinated Voting Shares and Multiple Voting Shares, in aggregate. Subordinated Voting Shares related to awards that terminate or are cancelled without being settled are available for subsequent grant. As at January 31, 2023, only RSUs have been granted under the LTIP Plan.

Restricted Share Units

RSUs represent a right to receive (a) a Subordinated Voting Share for each vested RSU redeemed, (b) a cash payment equal to the market price of vested RSUs redeemed, or (c) a combination thereof. The manner of settlement is at the sole discretion of the Company and the Company has no history nor the intention in the foreseeable future of settling RSUs in cash. Accordingly, RSUs are accounted for as equity awards. Dividend equivalent RSUs may be granted in respect of Subordinated Voting Shares covered by RSUs and would be subject to the same terms and conditions as the corresponding RSUs. Outstanding RSUs generally vest one-third annually over a three-year period. The fair value of RSUs is based on the Subordinated Voting Share price as at the date of grant. RSUs will generally be redeemed upon or shortly after vesting.

(In U.S. dollars)

15. Stock-based compensation (continued):

During the year ended January 31, 2023, the Company recognized stock-based compensation expense of $6,798,488 (2022 – $1,302,525) related to RSUs. A summary of RSU activity 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
RSUs granted	1,857,424	7.09
RSUs forfeited	(283,456)	11.76
RSUs settled	(241,182)	16.68
Balance, January 31, 2023	2,176,061	$ 9.13
Vested but not yet settled, January 31, 2023	–	–

(c) Deferred Share Unit Plan:

The D2L Deferred Share Unit Plan (the “DSU Plan”), adopted by the Company on November 3, 2021, authorizes the issuance of deferred share units (“DSUs”) to non-employee directors. Non-employee directors receive an annual DSU retainer fee (“Annual DSU Retainer Fee”) in the form of DSUs and can elect to receive their annual cash remuneration (“Annual Cash Remuneration”) in DSUs. The Company is also able to issue additional DSUs to non-employee directors at its discretion, subject to certain limitations. As at January 31, 2023, Annual DSU Retainer Fees in form of DSUs, DSUs related to the settlement of Annual Cash Remuneration, and DSUs related to the onboarding of a new non-employee director have been granted (2022 – only DSUs related to the settlement of Annual Cash Remuneration were granted).

DSUs represent a right to receive (a) a Subordinated Voting Share for each DSU redeemed, (b) a cash payment equal to the market price of DSUs redeemed, or (c) a combination thereof. The manner of settlement is at the sole discretion of the Company and the Company has no history nor the intention in the foreseeable future of settling DSUs in cash. Accordingly, DSUs are accounted for as equity awards.

15. Stock-based compensation (continued):

For the Annual DSU Retainer Fee, DSU's credited to a non-employee director's account generally vest at the earlier of: (i) one year from their date of grant; and (ii) completion of the next Annual General Meeting, provided that a non-employee director does not terminate prior to the vesting date. For non-employee directors that have elected to receive their Annual Cash Remuneration in DSU's, these DSU's are credited to a non-employee director's account and are fully vested at their issuance date, which is at the end of each fiscal quarter during which the related Annual Cash Remuneration was earned. DSU's become redeemable for a certain period of time upon termination of the holder.

The maximum number of Subordinated Voting Shares that may be issued under the DSU Plan is five percent of the number of issued and outstanding Subordinated Voting Share and Multiple Voting Shares, in aggregate, on a non-diluted basis at any time, provided that the combined number of Subordinated Voting Shares issued or issuable under the DSU Plan and all other stock-based compensation arrangements (including the LTIP Plan discussed above but excluding the Legacy Stock Option Plan) does not exceed ten percent of the Company's issued and outstanding Subordinated Voting Share and Multiple Voting Shares, in aggregate. Subordinated Voting Shares subject to DSUs that terminate or are cancelled without being settled are available for subsequent grant.

Settlement of Annual Cash Remuneration

If a non-employee director elects to receive DSUs as settlement for all or a portion of their Annual Cash Remuneration, the grant date for accounting purposes is the date at which the election becomes irrevocable, and the grant date fair value is based on the value of the related Annual Cash Remuneration. These DSUs vest at the end of the fiscal quarter during which the related Annual Cash Remuneration was earned. DSUs are issued on the last day of the fiscal quarter in which the related Annual Cash Remuneration was earned.

(In U.S. dollars)

15. Stock-based compensation (continued):

During the year ended January 31, 2023, the Company recognized stock-based compensation expense of $368,437 (2022 – $15,000) related to DSUs granted during the period. A summary of DSU activity 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
DSUs granted	173,316	6.91
DSUs forfeited	–	–
DSUs settled	–	–
Balance, January 31, 2023	174,599	$ 6.97
Vested but not yet settled, January 31, 2023	12,216	$ 8.23

(In U.S. dollars)

16. Income taxes:

Loss before income taxes is earned in the following jurisdictions:

	2023	2022
Loss before income taxes:		
Canada	$ (19,651,721)	$ (99,203,099)
United States	1,436,073	1,244,315
Other countries	273,011	141,653
	$ (17,942,637)	$ (97,817,131)

Income tax expense (recovery):

	2023	2022
Current income taxes (recovery):		
Current period	$ 522,603	$ 279,967
Change in estimates of prior periods	(18,941)	(34,521)
	503,662	245,446
Deferred income taxes (recovery):		
Current period	$ (18,180)	$ (502,830)
Change in tax rates	(2,884)	–
Change in estimates of prior periods	(48,510)	93,330
	(69,574)	(409,500)
	$ 434,088	$ (164,054)

(In U.S. dollars)

16. Income taxes (continued):

The following tables present the tax effects of temporary differences and carry-forwards, as well as the movements in deferred tax balances, which have been recognized by the Company:

	January 31, 2022	Recognized in profit or loss	January 31, 2023
Deferred tax assets:			
Operating losses carried forward	$ 867,887	$ (555,503)	$ 312,384
Non-deductible reserve for deferred revenue	111,707	231,323	343,030
Other temporary differences	73,021	(21,671)	51,350
Property and equipment	53,275	(468)	52,807
	1,105,890	(346,319)	759,571
Deferred tax liabilities:			
Intangible assets	$ 455,269	$ (455,269)	$ –
Tax on scientific research and development investment tax credit	78,643	(78,643)	–
Non-deductible reserve for deferred revenue	44,238	(44,238)	–
Accounting for leases	4,072	573	4,645
Deferred commissions and other expenses	646,571	165,811	812,382
Goodwill	44,924	37,940	82,864
Foreign exchange gain on intercompany loan	111,475	(42,067)	69,408
	1,385,192	(415,893)	969,299
Net deferred tax liabilities	$ (279,302)	$ 69,574	$ (209,728)
As presented on the consolidated balance sheets:			
Deferred tax assets	$ 139,101		$ 189,178
Deferred tax liabilities	(418,403)		(398,906)
Net deferred tax liabilities	$ (279,302)		$ (209,728)

(In U.S. dollars)

16. Income taxes (continued):

	January 31, 2021	Recognized in profit or loss	Current year acquisition	January 31, 2022
Deferred tax assets:				
Operating losses carried forward	$ 436,064	$ 431,823	$ –	$ 867,887
Non-deductible reserve for deferred revenue	377,669	(265,962)	–	111,707
Other temporary differences	113,134	(40,113)	–	73,021
Property and equipment	57,772	(4,497)	–	53,275
	984,639	121,251	–	1,105,890
Deferred tax liabilities:				
Intangible assets	$ –	$ (238,427)	$ 693,696	$ 455,269
Tax on scientific research and development investment tax credit	207,363	(128,720)	–	78,643
Non-deductible reserve for deferred revenue	–	44,238	–	44,238
Accounting for leases	–	4,072	–	4,072
Deferred commissions and other expenses	772,382	(125,811)	–	646,571
Goodwill	–	44,924	–	44,924
Foreign exchange gain on intercompany loan	–	111,475	–	111,475
	979,745	(288,249)	693,696	1,385,192
Net deferred tax assets (liabilities)	$ 4,894	$ 409,500	$ (693,696)	$ (279,302)
As presented on the consolidated balance sheets:				
Deferred tax assets	$ 237,809			$ 139,101
Deferred tax liabilities	(232,915)			(418,403)
Net deferred tax assets (liabilities)	$ 4,894			$ (279,302)

IAS 12 provides for the recognition of deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. In reviewing the carrying amounts of the deferred tax assets at the end of January 31, 2023 and January 31, 2022, the Company considered all available evidence, both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies.

(In U.S. dollars)

16. Income taxes (continued):

The provision (recovery) for income taxes varies from the expected provision at the statutory rates for the reasons detailed in the table below:

	2023	2022
Combined basic Canadian statutory rates	26.5%	26.5%
Income tax recovery based on the above rates	$ (4,754,799)	$ (25,921,540)
Increase (decrease) in income taxes resulting from:		
Permanent differences	2,436,156	24,242,194
Effect of tax rate differences	(49,214)	(41,985)
Change in estimates of prior periods	(67,451)	58,809
Recognition of previously unrecognized tax losses	–	(693,696)
Origination and reversal of temporary differences	1,705,132	1,637,093
Other	354,118	139,523
Current year losses for which no deferred tax asset is recognized	810,146	415,548
Income tax expense (recovery)	$ 434,088	$ (164,054)

The Company has certain Canadian-based deferred tax attributes, but has not recognized a deferred tax asset, in respect of the following deductible temporary differences and losses:

	2023	2022
Operating losses carried forward	$ 34,898,868	$ 37,714,244
Capital losses carried forward	1,290,898	2,884,272
SRED eligible expenditures pool	33,315,776	33,252,828
Property and equipment	3,152,692	2,855,867
Intangible assets	3,342,000	–
Leases	1,816,269	374,067
Deferred financing fees	4,657,199	4,183,457
Unrealized foreign exchange losses	5,385,673	612,844
Other temporary differences	175,446	149,866
Total	$ 88,034,821	$ 82,027,445

(In U.S. dollars)

16. Income taxes (continued):

The Company has Canadian net operating loss carry forwards of $34,898,868 (2022 – $37,714,244) for which no deferred tax asset has been recognized.

The global net operating losses expire as follows:

Expiry year	Canada
2034 and thereafter	$ 34,898,868

The Company has capital loss carry forwards in Canada totalling $1,290,898 (2022 - $2,884,272). These losses do not expire. Other unrecognized deductible temporary differences do not expire.

The Company has not recognized deferred tax liabilities associated with investments in subsidiaries with aggregate temporary differences of $2,375,800 (2022 – $777,737) because the company controls whether the liability will be incurred.

17. Commitments and contingencies:

(a) Commitments:

In October 2020, the Company entered into a six-year contract with a hosting services provider whereby the minimum committed spend was $75 million over for the term of the contract. As at January 31, 2023, the Company's remaining committed spend is $30.3 million.

Similarly in October 2020, the Company entered into a contract with a business intelligence tool provider which requires a minimum payment of $1 million in fiscal 2024.

In October 2021, the Company entered into the Kitchener Lease with Catalyst, as described in note 9 and note 19(f). The Kitchener Lease commenced on February 1, 2022 and terminates on July 31, 2033. The total committed spend is $15.9 million over the next 11 fiscal years.

17. Commitments and contingencies (continued):

(b) Contingencies:

The e-Learning solutions offered by the Company are typically warranted to function in a manner materially consistent with applicable documentation under normal use and circumstances.

The Company's customers are given service level commitments warranting levels of uptime and permitting such customers to receive credits in the event that such commitments are not met. To date, the Company has not incurred any material costs as a result of such commitments and has not accrued any material liabilities related to such obligations.

Arrangements with customers also generally include provisions indemnifying customers against certain liabilities, including if the Company's products or services infringe a third-party's intellectual property rights. The Company may also incur liabilities if it breaches the security and/or confidentiality obligations in its contracts. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations.

The Company has agreed to indemnify its respective directors and officers for costs incurred by any of these persons in any proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that may enable the Company to recover a portion of any future amounts paid.

The Company, from time to time, is subject to other claims and suits relating to matters in the ordinary course of business. 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.

17. Commitments and 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.

18. Government assistance:

During 2019, the Company entered into a Conditional Grant Agreement with the Province of Ontario under the Minister of Economic Development and Growth (the "Province"). The agreement provides a maximum grant of $8,220,000 over the term of the agreement which ends January 31, 2024, and is contingent upon the Company meeting certain cumulative job and specified expenditure targets over the term of the agreement. The Province reserves the right to repayment in the event of non-compliance. The Province reserves the right to terminate the agreement at any time. The Company was compliant with the requirements of the grant as at January 31, 2023 and 2022.

During 2023, the Company recognized grants of $2,230,446 (2022 – $1,753,193) under a payment in arrears model, whereby funding is received after the achievement of certain milestones pursuant to the terms of the agreement. The grants were recorded as a reduction of the related expenses in the consolidated statements of comprehensive loss. As at January 31, 2023, the balance receivable from the Province was $2,169,666 (2022 – $1,722,932) and is included within other receivables disclosed in note 4.

For the year ended January 31, 2023, the Company did not record a Canadian provision for refundable investment tax credits related to research and development expenditures as the Company no longer qualifies as a Canadian-controlled private company after becoming a public company on November 3, 2021. For the year ended January 31, 2022, the Company recorded $296,765 of refundable investment tax credits. This amount was recorded as a reduction of the related expenses for the year.

As at January 31, 2023, the Company has available Canadian federal non-refundable investment tax credits of $5,556,640 (2022 - $5,195,049) related to research and development expenditures which may be used to reduce federal income taxes payable in future years. These non-refundable investment tax credits begin to expire in 2032 and thereafter. The benefits of these non-refundable investment tax credits have not been recognized in the consolidated financial statements.

19. 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 $90,671 for the year ended January 31, 2023 (2022 - $136,685) related to service agreements with Virtual High School Ontario ("VHS"), a corporation controlled by family members of John Baker, the Company's Chief Executive Officer ("CEO"), and in which John Baker, had a minority interest and continues to have other business dealings. As at January 31, 2023, the Company had nil (2022 - nil) in trade receivables from this related party.

(b) The Company expensed purchases of nil for the year ended January 31, 2023 (2022 – $124,323) related to purchase agreements with Bayfield Design Inc. ("Bayfield Design"), 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. The purchase agreement was cancelled on August 3, 2021 pursuant to the acquisition of Bayfield Design referred to in note 23.

(c) The Company expensed purchases of nil for the year ended January 31, 2023 (2022 – $241,212) related to a reseller agreement with Bayfield Design, a corporation controlled by family members of John Baker, the Company's CEO, in which John Baker, had a minority interest and other business dealings. As outlined in note 23, the reseller agreement was cancelled on August 3, 2021.

(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, which closed on November 3, 2021. As outlined in note 23, 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.

(In U.S. dollars)

19. 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 paid $2,193 (2,800 CAD) per month, for the period beginning February 2, 2022 and terminating on October 10, 2022. The Company recognized rent expense of $18,110 (23,303 CAD) for the year ended January 31, 2023 (2022 – nil). The Media Studio Lease extended the Company's 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, as described in note 23.

(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, including right-of-use asset amortization, interest expense and common area maintenance fees, of $1,666,063 (2,191,593 CAD) for the year ended January 31, 2023 (2022 – nil).

D2L Corporation has the following cash flow commitment relating to the Kitchener Lease:

	CAD	USD
February 1, 2023 - January 31, 2024	$ 1,012,947	$ 752,089
February 1, 2024 - January 31, 2025	1,783,476	1,324,188
February 1, 2025 - January 31, 2026	1,858,854	1,380,154
February 1, 2026 - January 31, 2027	1,937,954	1,438,884
February 1, 2027 – July 31, 2033	14,756,366	10,956,246
Total undiscounted commitment	$ 21,349,596	$ 15,851,561

(In U.S. dollars)

19. Related party transactions (continued):

Compensation of key management personnel:

The Company defines key management as the Board of Directors, the CEO and their direct reports. The compensation paid or payable to key management is shown in the following table. The remuneration of key management personnel during the year, was as follows:

	2023	2022
Salaries and other short-term benefits	$ 3,558,722	$ 3,634,015
Stock-based payments	3,067,539	21,715,619
	$ 6,626,261	$ 25,349,634

The remuneration of key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends.

During the year ended January 31, 2022, stock-based payments were impacted by stock-based compensation expense of $20,426,726, which affects the year-over-year comparisons. See note 15 for additional details.

20. Capital management:

The Company's capital is composed of shareholders' equity. The Company's objectives in managing its capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process. The capital structure of the Company is adjusted on a timely basis, in line with its risk tolerance levels, depending on changes in the economic environment and in the risks of the underlying assets.

The Company is not subject to externally imposed capital requirements.

(In U.S. dollars)

21. Employee benefits:

The total employee compensation comprising of salaries and benefits, excluding grants and tax credits, for the year ended January 31, 2023 was $108,824,715 (2022 - $101,001,790).

The Company has a defined contribution pension plan for its eligible employees. The total cost recognized for the company's defined contribution plan is $2,280,039 (2022 - $2,169,901).

22. 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 and President. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment.

Geographic information:

Revenue by geographic region, based on the physical location of the customer, is as follows:

	2023	2022
Canada	$ 42,694,723	$ 41,352,519
United States	97,172,744	84,139,380
Rest of world	28,528,949	26,388,164
Total	$ 168,396,416	$ 151,880,063

For each fiscal year presented, there was no single customer with revenue in excess of 10% of the Company's total revenue.

(In U.S. dollars)

22. Operating segments (continued):

Non-current assets includes property and equipment right-of-use assets, and intangible assets that are attributable to individual geographic segments, based on location of the respective operations:

Property and equipment:

	2023	2022
Canada	$ 4,057,800	$ 2,109,289
United States	94,291	85,596
Rest of world	135,004	128,823
Total	$ 4,287,095	$ 2,323,708

Right-of-use assets:

	2023	2022
Canada	$ 11,161,334	$ 1,160,916
Rest of world	44,037	162,101
Total	$ 11,205,371	$ 1,323,017

Intangible assets:

All intangible assets were held in Canada for the years ended January 31, 2023 and 2022.

23. Acquisition of Bayfield Design:

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 former Chief Financial Officer, 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.

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

Bayfield Design creates 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 paid in cash on November 15, 2021.

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 (note 6)	$	88,708
Course content (note 7)		5,330,497
Software (note 7)		383,604
Less: deferred tax liability (note 16)		(706,291)
	$	5,096,518
Goodwill (note 8)		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.

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

Subsequent to the closing of the Bayfield Acquisition, Bayfield incurred certain expenses for IT migration and maintenance services to assist with the transition of the Purchased Assets to D2L Corporation pursuant to the Transition Services Agreement dated August 3, 2021. For the year ended January 31, 2022, D2L Corporation reimbursed Bayfield $22,004 for these post-closing costs, which were expensed by the Company as they were incurred pursuant to the acquisition.

The amount of Bayfield Design's revenues and net loss included in the consolidated statement of comprehensive loss for the year ended January 31, 2022 since the date of the acquisition are $51,770 and $2,263,057, respectively.

During the three month period ended January 31, 2023, the Company recorded an impairment loss of $4,474,370 in relation to the intangible assets acquired from the Bayfield Acquisition. Refer to Note 7 for further details.