



D2L INC.

Management's Discussion and Analysis

For the three-month period ended April 30, 2024

Dated: June 4, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") comments on the financial performance and financial condition of D2L Inc. ("D2L" or the "Company") for the three months ended April 30, 2024.

Unless otherwise stated or the context otherwise indicates, all references to "D2L", the "Company", "we", "us" or "our" refer to D2L Inc., together with our subsidiaries, on a consolidated basis. This MD&A also refers to our fiscal years. Our fiscal year commences on February 1st of each year and ends on January 31st of the following year. Our current fiscal year, which will end on January 31, 2025, is referred to as "Fiscal 2025" or similar words. Our previous fiscal year, which ended on January 31, 2024, is referred to as "Fiscal 2024" or similar words. Other fiscal years are referenced by the applicable calendar year during which the fiscal year ends.

The information in this MD&A should be read in conjunction with: (i) the Company's unaudited condensed consolidated interim financial statements for the three months ended April 30, 2024, which have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"); (ii) the Company's audited annual consolidated financial statements for the years ended January 31, 2024 and 2023, along with the related notes thereto; and (iii) the Company's MD&A for the years ended January 31, 2024 and 2023 (the "Annual MD&A").

Additional information relating to D2L, including our most recently filed Annual Information Form ("AIF"), can be found on SEDAR+ at www.sedarplus.com. All amounts are in thousands of United States dollars except where otherwise indicated (including under "Financial Outlook") and per share amounts.

Forward-Looking Information

This MD&A includes statements containing "forward-looking information" within the meaning of applicable securities laws. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", "budget", "scheduled", "estimates", "outlook", "target", "forecasts", "projection", "potential", "prospects", "strategy", "intends", "anticipates", "seek", "believes", "opportunity", "guidance", "aim", "goal" or variations of such words and phrases or statements that certain future conditions, actions, events or results "may", "could", "would", "should", "might", "will", "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions. Statements containing forward-looking information are not historical facts, but instead represent management's expectations, estimates and projections regarding future events or circumstances.

This forward-looking information relates to the Company's future financial outlook and anticipated events or results and includes, but is not limited to, statements under the heading "*Financial Outlook*" and information regarding: the Company's financial position, financial results, business strategy, performance, achievements, prospects, objectives, opportunities, business plans and growth strategies; the Company's budgets, operations and taxes; judgments and estimates impacting on financial statements; the markets in which the Company operates; industry trends and the Company's competitive position; expansion of the Company's product offerings; the anticipated impacts of acquisitions; trends in research and development expenses and general and administrative expenses, each as a percentage of revenue; planned expenditures in sales and marketing and research and development activities; the timing and pace for achieving scalability; expectations regarding the growth of the Company's customer base, revenue and revenue generation potential and expectations regarding costs, including as a percentage of revenue; and the proposed spin-out of D2L Wave.

Forward-looking information is based on certain assumptions, expectations and projections, and analyses made by the Company in light of management's experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, including the following: the Company's ability to win business from new customers and expand business from existing customers; the timing of new customer wins and expansion decisions by existing customers; the Company's ability to generate revenue and expand its business while controlling costs and expenses; the Company's ability to manage growth effectively; the Company's ability to hire and retain personnel effectively; the effects of foreign currency exchange rate fluctuations on our operations; the ability to seek out, enter into and successfully integrate acquisitions; business and industry trends, including the success of current and future product development initiatives; positive social development and attitudes toward the pursuit of higher education; the Company's ability to maintain positive relationships with its customer base and strategic partners; the Company's ability to adapt and develop solutions that keep pace with continuing changes in

technology, education and customer needs; the ability to patent new technologies and protect intellectual property rights; the Company's ability to comply with security, cybersecurity and accessibility laws, regulations and standards; the assumptions underlying the judgments and estimates impacting on financial statements; and the Company's ability to retain key personnel; conditions to completing the spin-out of D2L Wave are achieved or waived in a timely manner; the factors and assumptions discussed under the "Financial Outlook" section of the Annual MD&A, and that the list of factors included in the "Summary of Factors Affecting Our Performance" section below, and the "Risk Factors" section of the Company's AIF, do not have a material impact on the Company.

Although the Company believes that the assumptions underlying such forward-looking information were reasonable when made, they are inherently uncertain and are subject to significant risks and uncertainties and may prove to be incorrect. The Company cautions investors that forward-looking information is not a guarantee of the future and that actual results may differ materially from those made in or suggested by the forward-looking information contained in this MD&A. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties and other factors, including but not limited to the risks identified herein, including the "Summary of Factors Affecting Our Performance", or in the "Risk Factors" section of the Company's AIF. If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking information prove incorrect, actual results might vary materially from those anticipated in the forward-looking information.

Given these risks and uncertainties, investors are cautioned not to place undue reliance on forward-looking information, including any financial outlook. Any forward-looking information that is contained in this MD&A speaks only as of the date of such statement, and the Company undertakes no obligation to update any forward-looking information or to publicly announce the results of any revisions to any of those statements to reflect future events or developments, except as required by applicable securities laws. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

Non-IFRS and Other Financial Measures

Non-IFRS Financial Measures and Non-IFRS Financial Ratios

The information presented within this MD&A refers to certain non-IFRS financial measures (including non-IFRS ratios) including Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Margin, Free Cash Flow, Free Cash Flow Margin, and Constant Currency Revenue. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Non-IFRS financial measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS and are unlikely to be comparable to similar measures presented by other issuers. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations, financial performance and liquidity from management's perspective and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of the Company. The Company's management also uses non-IFRS financial measures to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to assess our ability to meet our capital expenditures and working capital requirements.

Constant Currency Revenue

“Constant Currency Revenue” is defined as our total revenue with foreign-currency-denominated revenues translated at the historical exchange rates from the comparable prior period into our U.S. dollar functional currency.

Constant Currency Revenue is used by management as a supplemental measure to review and assess operating performance and to provide a more complete understanding of factors and trends affecting the Company’s business. Management believes that Constant Currency Revenue is a useful measure of operating performance to review and assess the revenue growth of the Company by removing the impact of period-over-period changes in foreign currency exchange rates. The exclusion of this impact allows for greater comparability between reporting periods.

Adjusted EBITDA and Adjusted EBITDA Margin

“Adjusted EBITDA” is defined as net income (loss), excluding interest, taxes, depreciation and amortization (or EBITDA), adjusted for stock-based compensation, foreign exchange gains and losses, non-recurring expenses, transaction-related expenses, impairment charges and other income and losses.

“Adjusted EBITDA Margin” is calculated as Adjusted EBITDA expressed as a percentage of total revenue.

Adjusted EBITDA and Adjusted EBITDA Margin are used by management as supplemental measures to review and assess operating performance and to provide a more complete understanding of factors and trends affecting the Company’s business. Management believes that Adjusted EBITDA and Adjusted EBITDA Margin are useful measures of operating performance and the Company’s ability to generate cash-based earnings, as they provide a more relevant picture of operating results by excluding the effects of financing and investing activities, which removes the effects of interest, depreciation and amortization expenses as well as other expenses, as described, that are not reflective of the Company’s underlying business.

During the three months ended April 30, 2024, we incurred expenses related to spin-out activities of certain assets. These transaction-related costs are recorded in General and administrative expenses in the condensed consolidated interim statement of comprehensive income (loss). These expenses are not considered to be reflective of ordinary operations and are expected to be substantially complete by mid-year.

Free Cash Flow and Free Cash Flow Margin

“Free Cash Flow” is defined as cash provided by (used in) operating activities less net additions to property and equipment.

“Free Cash Flow Margin” is calculated as Free Cash Flow expressed as a percentage of total revenue.

Free Cash Flow and Free Cash Flow Margin are used by management as supplemental measures to review and assess operating performance and to provide a more complete understanding of factors and trends affecting the Company’s business. Management believes that Free Cash Flow and Free Cash Flow Margin are useful measures of operating performance to review and assess the cash available for the Company to pursue strategic business opportunities.

Adjusted Gross Profit and Adjusted Gross Margin

“Adjusted Gross Profit” is defined as gross profit excluding related stock-based compensation expenses.

“Adjusted Gross Margin” is calculated as Adjusted Gross Profit expressed as a percentage of total revenue.

Adjusted Gross Profit and Adjusted Gross Margin are used by management as supplemental measures to review and assess operating performance and to provide a more complete understanding of factors and trends affecting the Company’s business. Management believes that Adjusted Gross Profit and Adjusted Gross Margin are useful measures of operating performance to review and assess the gross profitability of the Company, as they provide a more relevant picture of gross profitability by excluding the effects of non-cash, stock-based compensation expenses.

Reconciliation of Non-IFRS Financial Measures

Constant Currency Revenue

The following table reconciles Constant Currency Revenue to revenue, for the periods indicated:

(in thousands of U.S. dollars)	Three months ended April 30	
	2024	2023
Total revenue for the period	48,495	44,228
Positive impact of foreign exchange rate changes over the prior period	(45)	—
Constant Currency Revenue	48,450	44,228

Adjusted EBITDA and Adjusted EBITDA Margin

The following table reconciles Adjusted EBITDA to income for the period, and discloses Adjusted EBITDA Margin, for the periods indicated:

(in thousands of U.S. dollars, except for percentages)	Three months ended April 30	
	2024	2023
Income for the period	572	1,110
Stock-based compensation	2,333	2,074
Foreign exchange gain	(231)	(430)
Non-recurring expenses ⁽¹⁾	821	—
Transaction-related expenses ⁽²⁾	672	—
Net interest income	(923)	(720)
Income tax expense	24	160
Depreciation and amortization	751	617
Adjusted EBITDA	4,019	2,811
Adjusted EBITDA Margin	8.3%	6.4%

Note:

- (1) These expenses relate to non-recurring activities, such as certain legal fees incurred that are not indicative of continuing operations, and restructuring of workforce or technology whereby certain functions were realigned to optimize operations.
- (2) These expenses include certain legal and professional fees that are incurred in connection with acquisition and other strategic transactions. The expenses primarily consist of costs related to the proposed spin-out of the D2L Wave offering and post-combination compensation from prior acquisitions. These expenses would not have been incurred if not for these transactions and are not considered expenses indicative of continuing operations.

Free Cash Flow and Free Cash Flow Margin

The following table reconciles Free Cash Flow to cash flow used in operating activities, and discloses Free Cash Flow Margin, for the periods indicated:

(in thousands of U.S. dollars, except for percentages)	Three months ended April 30	
	2024	2023
Cash flow used in operating activities	(14,826)	(17,035)
Net addition to property and equipment	(126)	(1,649)
Free Cash Flow	(14,952)	(18,684)
Free Cash Flow Margin	-30.8%	-42.2%

The cash flows from operations of the Company are seasonal in nature. Cash flows from operations 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.

Adjusted Gross Profit and Adjusted Gross Margin

The following table reconciles Adjusted Gross Profit to gross profit, and discloses Adjusted Gross Margin, for the periods indicated:

(in thousands of U.S. dollars, except for percentages)	Three months ended April 30	
	2024	2023
Gross profit for the period	32,677	29,880
Stock-based compensation	146	111
Adjusted Gross Profit	32,823	29,991
Adjusted Gross Margin	67.7%	67.8%

Key Performance Indicators

Management uses a number of metrics, including the key performance indicators identified below, to help us evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other issuers. These metrics are estimated operating metrics and not projections, nor actual financial results, and are not indicative of current or future performance.

Annual Recurring Revenue and Constant Currency Annual Recurring Revenue

We define Annual Recurring Revenue as the annualized equivalent value of subscription revenue from all existing customer contracts as at the date being measured, exclusive of the implementation period. Our calculation of Annual Recurring Revenue assumes that customers will renew their contractual commitments as those commitments come up for renewal. We believe Annual Recurring Revenue provides a reasonable, real-time measure of performance in a subscription-based environment and provides us with visibility for potential growth to our cash flows. We believe that increasing Annual Recurring Revenue indicates the continued strength of our business and the successful execution of our strategy will continue to be our focus on a go-forward basis.

We define Constant Currency Annual Recurring Revenue as foreign-currency-denominated Annual Recurring Revenue translated at the historical exchange rates from the comparable prior period into our U.S. dollar functional currency.

(in millions of U.S. dollars, except percentages)	As at April 30		Change %
	2024 \$	2023 \$	
Annual Recurring Revenue	190.3	170.9	11.4%
Constant Currency Annual Recurring Revenue	191.4	170.9	12.0%

Overview

D2L's mission is to transform the way the world learns. We deliver personalized, flexible and modern learning experiences for people of all ages. Our learning technology is powered by more than 20 years of expertise and a vision for the future of work and learning. We focus on creating a unique learner-centric platform, informed by learning science, that holds the capacity to increase adoption, retention, engagement, and learning outcomes. Our core cloud-based learning innovation platform, Brightspace, serves three distinct markets: kindergarten to grade 12 schools ("K-12"), higher education, and corporate markets. Our technology is easy to use and accessible for people across these markets who use our platform for online learning, supporting learning in the classroom, and for professional development and training. D2L Brightspace Core functionality is extended through Performance+, our advanced analytics package, and Creator+, which provides easy-to-use authoring tools for efficient and effective learning and engages learners through add-on solutions such as video and catalogue capabilities to help instructors create engaging, video-based training and courses. Our learning technology leverages intelligent features like artificial intelligence, smart workflow design and automation to help educators better understand the unique needs, activities, and performance of each learner, and integrates seamlessly with other technologies to enable our customers to deliver individualized and personalized learning programs at scale.

Our solutions are sold through a subscription model and structured with a minimum user level commitment. The majority of our customers enter into contracts with a term of three to five years. Our contracts are priced on a per user basis (excluding certain users such as administrators and teachers) that varies depending on the size of the organization, complexity, and required services. During the three months ended April 30, 2024, we generated revenues of \$48.5 million, up \$4.3 million or 9.7% compared to the same period in the prior year.

We sell our platform primarily through our direct sales force in North America, Europe, and Australia, as well as through a mix of direct and indirect channel partners in other countries around the world. Our platform is used worldwide by more than 18 million users, with a multitude of customers across our target markets and regions resulting in significant diversification, with no customer representing more than 10% of our annual revenue.

Summary of Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which are discussed below.

Ability to retain and up-sell existing customers

Our relationships with existing customers present an opportunity to up-sell additional functionality and expand users. Our future revenue and growth and ability to achieve and maintain profitability is dependent upon our ability to maintain existing customer relationships and to continue to expand our customers' use of our platform.

Ability to attract new customers

In order to grow our business, we must attract new customers. This will be impacted by the growth in demand for our products and the features and pricing of our competitors' offerings.

Scaling our sales and marketing efforts

Our ability to achieve future revenue growth will largely depend on the effectiveness of our sales and marketing efforts, both domestically and internationally. Investments in our sales and marketing organization occur in advance of experiencing any benefits from such investments, which may make it difficult to determine if we are efficiently allocating our resources in these areas.

Investment in technology

Our success is dependent upon our ability to sustain technological innovation. We intend to continue investing in our research and development teams and rely on our customer relationships and knowledge to continually innovate our product and solution offerings, thereby meeting our customers' evolving needs. Investments in our research and development will occur in advance of experiencing any benefits from such investments, which may make it difficult to determine if we are efficiently allocating our resources in these areas. Our continued success will depend on our ability to keep pace with technological and marketplace changes and to introduce, on a timely and cost-effective basis, new and enhanced services that satisfy changing customer requirements.

International expansion

We believe there is significant opportunity to expand usage of our platform outside of North America. Our future success will depend in part upon our ability to continue to deepen our presence in international markets, expand into new geographic regions, and we will face risks expanding and entering markets in which we have limited or no experience, which may have additional complexity, which may be prone to greater market uncertainty, and in which we may not have brand recognition. Further, our international expansion in some markets will rely upon the successful use of indirect channel partners with whom we have limited operating experience.

Foreign currency

Our presentation and functional currency is the U.S. dollar, and we derive the majority of our revenues in U.S. dollars and the majority of our expenses in non-U.S. dollars. Our head office and a large portion of our employees are located in Canada, along with additional presence in the United Kingdom and Australia. As a result, a significant amount of our expenses are incurred in Canadian dollars, British pound sterling, and Australian dollars. Our results of operations may be significantly impacted by a change in the value of the U.S. dollar relative to the Canadian dollar, British pound sterling, or Australian dollar. See the "Risk Factors" section of our most recently filed AIF for a discussion on exchange rate fluctuations and their potential negative effect on our results of operations.

Components of Results of Operations

Revenue

D2L generates revenue from the following two primary sources:

Recurring subscription and support revenue

Subscription and support revenue is derived from fees earned from customers for accessing D2L's learning technologies, and includes purchases of application support beyond that included with all subscriptions, and fees earned for usage beyond contracted user counts. The majority of our customers enter into subscription and support contracts with us that have a term of three to five years, and on average there is a three-to-four-month lag between contract signing and commencement of contract term and associated revenue recognition. Accordingly, subscription and support revenue is generally recognized rateably over the contract term. D2L's contracts with customers typically include a fixed amount of consideration and are generally non-cancelable, or cancelable with a penalty, and without any refund-type provisions.

Professional services and other revenue

Professional services and other revenue include fees from consultation services to support the implementation of, integration of, and training related to the learning technologies, 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. D2L recognizes the revenue as the services are rendered.

Cost of revenue

D2L incurs cost of revenue from the following two primary sources:

Cost of recurring subscription and support

Cost of recurring subscription and support primarily consists of costs related to providing D2L's cloud-based applications and delivering application support to customers. Significant expenses included in these costs include cloud technology and networking expenses, employee wages and benefits expenses, including stock-based compensation, payment to outside service providers and an allocated proportion of overhead costs.

We expect that the cost of revenue will increase in absolute dollars as the number of customers utilizing our learning technologies increases along with the costs of supporting those customers. Over the medium-term, we expect that cost of revenue will increase on an absolute dollar basis but generally decrease as a percentage of total revenues.

Cost of professional services and other

Cost of professional services and other largely consists of costs related to the provision of consultation services both around the inception of, or as a follow-on during, the term of the subscription agreement. Significant expenses included in these costs include employee wages and benefit expenses, including stock-based compensation, contractor expenses, and an allocated proportion of overhead costs.

We expect that the cost of revenue will increase in absolute dollars as the number of customers utilizing our learning technologies increases along with the costs of servicing those customers. Over the medium-term, we expect that cost of revenue will increase on an absolute dollar basis but generally decrease as a percentage of total revenues.

Sales and marketing

Sales and marketing expenses consist primarily of personnel-related expenses, including stock-based compensation, as well as expenses for product marketing and lead generation, brand marketing, sponsorship activities, and travel and event-related expenses. These expenses also include allocated overhead costs.

We plan to continue investing in sales and marketing to attract new customers, retain existing customers, and increase revenues from both new and existing customers, and expect over the medium-term for costs to decrease as a percentage of total revenues as total revenues increase.

Research and development

Research and development expenses consist primarily of personnel-related expenses, including salaries, benefits, and stock-based compensation, for product management, product development and product design, contractor fees, as well as allocated overhead costs.

Our research and development team is focused on both continuous improvement of our existing platform, as well as developing new product features and solutions. We will continue to invest in research and development, and over the medium-term expect that these expenses will generally decrease as a percentage of total revenues as total revenues increase.

General and administrative

General and administrative expenses consist of employee-related expenses, including stock-based compensation, for our administrative, finance, legal, human resources, information technology, operations and strategy teams. These expenses also include non-personnel costs such as professional fees, insurance-related expenses, general office expenses, credit impairment losses, as well as allocated overhead costs.

Our general and administrative expenses include the costs to comply with rules and regulations applicable to companies listed on a Canadian securities exchange including costs related to reporting obligations pursuant to rules of the Canadian securities commissions. We expect our general and administrative expenses will decrease as a percentage of total revenues over the medium term as total revenues increase.

Interest and other income (expense)

Interest and other income (expense) consists primarily of net interest income or expenses and transaction gains or losses on foreign currency.

Other comprehensive (loss) income

Other comprehensive (loss) income consists primarily of gains or losses on the translation of the accounts of our foreign, wholly-owned subsidiaries into our U.S. dollar functional currency.

Changes in foreign currency exchange rates from period to period may cause volatility in our earnings as well as impact comparability of our results from period to period.

Results of Operations

The following table outlines our consolidated statements of comprehensive (loss) income for the periods indicated:

(in thousands of U.S. dollars, except for percentages)	Three months ended April 30	
	2024	2023
Revenue	48,495	44,228
Cost of revenue	15,818	14,348
Gross profit	32,677	29,880
Operating expenses		
Sales and marketing	12,905	12,441
Research and development	12,291	11,145
General and administrative	8,099	6,190
Total operating expenses	33,295	29,776
(Loss) income from operations	(618)	104
Interest and other income	1,214	1,166
Income before income taxes	596	1,270
Income tax expense	24	160
Income for the period	572	1,110
Other comprehensive loss	(796)	(211)
Comprehensive (loss) income	(224)	899
Earnings per share - basic	0.01	0.02
Earnings per share - diluted	0.01	0.02

Review of Operations

Revenue

(in thousands of U.S. dollars, except percentages)	Three months ended April 30		
	2024	2023	Change
	\$	\$	%
Revenue			
Subscription and support revenue	42,954	39,190	9.6%
Professional services and other revenue	5,541	5,038	10.0%
Total revenue	48,495	44,228	9.7%
Percentage of total revenue			
Subscription and support revenue	88.6%	88.6%	
Professional services and other revenue	11.4%	11.4%	
Total revenue	100.0%	100.0%	

For the three months ended April 30, 2024, subscription and support revenue was \$43.0 million, compared to \$39.2 million for the same period of the prior year, representing an increase of \$3.8 million or 9.6%. The increase in subscription and support revenue was primarily attributable to revenue from new customers, coupled with strong revenue retention and expansion from existing customers, as Annual Recurring Revenue (see “Non-IFRS and Other Financial Measures – Key Performance Indicators”) as at April 30, 2024 reached \$190.3 million (up \$19.4 million or 11.4% from \$170.9 million as at April 30, 2023).

Professional services and other revenue for the three months ended April 30, 2024 was \$5.5 million, an increase of \$0.5 million or 10.0% from the \$5.0 million earned in the same period of the prior year. The increase was mainly due to the volume of professional services engagements which had significant services delivered in the current period.

Constant Currency Revenue (a non-IFRS financial measure, see “Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios”) was \$48.5 million for the three months ended April 30, 2024. This compares to \$44.2 million in the corresponding prior period, reflecting growth of \$4.3 million or 9.5%. The increase was driven primarily by growth in subscription and support revenue over the same period in the prior year, as demonstrated by the 12.0% increase in Constant Currency Annual Recurring Revenue (see “Non-IFRS and Other Financial Measures – Key Performance Indicators”).

Cost of revenue

(in thousands of U.S. dollars, except percentages)	Three months ended April 30		Change %
	2024 \$	2023 \$	
Cost of revenue			
Cost of subscription and support	11,947	11,241	6.3%
Cost of professional services and other	3,871	3,107	24.6%
Total cost of revenue	15,818	14,348	10.2%
Percentage of total cost of revenue			
Cost of subscription and support	75.5%	78.3%	
Cost of professional services and other	24.5%	21.7%	
Total cost of revenue	100.0%	100.0%	

The cost of subscription and support revenue for the three months ended April 30, 2024 was \$11.9 million, representing an increase of \$0.7 million or 6.3% compared to the same period in the prior year. The increase was primarily attributable to employee wages and benefits that are support costs associated with new customers and the expansion of existing customers. This is consistent with the percentage increase in revenue for the three months ended April 30, 2024.

Cost of professional services and other revenue for the three months ended April 30, 2024, was \$3.9 million, representing an increase of \$0.8 million or 24.6% compared to the same period in the prior year. The increase was primarily attributable to an increase in partner related cost of revenue and an increase in employee wages and benefits that are costs associated with servicing customers.

Gross profit

(in thousands of U.S. dollars, except percentages)	Three months ended April 30		Change %
	2024 \$	2023 \$	
Gross profit			
Subscription and support	31,007	27,949	10.9%
Professional services and other	1,670	1,931	-13.5%
Total gross profit	32,677	29,880	9.4%
Gross profit margin			
Subscription and support	72.2%	71.3%	
Professional services and other	30.1%	38.3%	
Total gross profit margin	67.4%	67.6%	

Gross profit earned on subscription and support for the three months ended April 30, 2023 was \$31.0 million, up from \$27.9 million earned for the same period in the prior year, representing a period-over-period increase of \$3.1 million or 10.9%. The increase in gross profit was primarily driven by the increase in our subscription and support revenue which outpaced the related increase in cost of revenue, based on factors described above.

As a percentage of revenue, gross profit margin for subscription and support for the three months ended April 30, 2024 increased by 90 basis points to 72.2% from 71.3% in the same period of the prior year. The increase was primarily attributable to growth in subscription and support revenues, partially offset by an increase in the related costs of revenue based on the factors discussed above.

For the three months ended April 30, 2024, gross profit recognized on professional services and other was \$1.7 million, down from \$1.9 million earned for the same period in the prior year, representing a slight decrease of \$0.2 million or 13.5%. The decrease in gross profit was primarily driven by an increase in costs of revenue which outpaced the related increase in professional service and other revenue, based on the factors described above.

For the three months ended April 30, 2024, gross profit margin for professional services and other decreased to 30.1% from 38.3% in the same period of the prior year. The decrease was attributable to partner related cost of revenue and increase in employee wages and benefits.

Adjusted Gross Profit (a non-IFRS financial measure, see “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”) for the three months ended April 30, 2024 was \$32.8 million, an increase of \$2.8 million or 9.5% from the same period in the prior year. The increase was the result of higher subscription and support revenues derived from new and existing customers, outpacing the related costs of revenue. These impacts were partially offset by the decline in gross profit for professional services and other.

Similarly, Adjusted Gross Margin (a non-IFRS ratio, see “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”) for the three-month period ended April 30, 2024 was 67.7% which is relatively consistent compared to 67.8% in the same period of the prior year.

Operating expenses

(in thousands of U.S. dollars, except percentages)	Three months ended April 30		
	2024	2023	Change
	\$	\$	%
Operating expenses			
Sales and marketing	12,905	12,441	3.7%
Research and development	12,291	11,145	10.3%
General and administrative	8,099	6,190	30.9%
Total operating expenses	33,295	29,776	11.8%
Percentage of total revenue			
Sales and marketing	26.6%	28.1%	
Research and development	25.3%	25.2%	
General and administrative	16.7%	14.0%	
Total percentage of total revenue	68.6%	67.3%	

Sales and marketing expenses for the three months ended April 30, 2024 were \$12.9 million, up \$0.5 million or 3.7% compared to the same period in the prior year. The increase was primarily attributable to the timing of in-person marketing and industry events that had a higher volume of attendance compared to the same period in the prior year, and timing of commission expenses related to a large volume of professional services engagements in the current period.

For the three months ended April 30, 2024, research and development expenses were \$12.3 million, versus \$11.1 million for the same period in the prior year, representing an increase of \$1.2 million or 10.3%. Included in research and development expenses for the three months ended April 30, 2024 is \$0.8 million of stock-based compensation expense, compared to \$0.6 million in the same period of the prior year. Excluding the impact of stock-based compensation, the increase for the period was \$1.0 million or 9%. The increase was primarily attributable to an increase in employee wages and benefits as well as increased spending on subcontracting expenses for third party outsourcing of development work. In addition, there was increased capacity as we continue to enhance our existing products and develop new offerings.

General and administrative expenses increased from \$6.2 million to \$8.1 million for the three months ended April 30, 2024 as compared to the same period in the prior year, representing an increase of \$1.9 million or 30.9%. Included in general and administrative expenses for the period is \$1.2 million of stock-based compensation expense, compared to \$1.1 million in the same period of the prior year, \$0.6 million of legal fees that are not indicative of continuing operations, and \$0.6 million of legal and professional fees associated with the proposed spin-out of the D2L Wave offering, compared to nil in the same period of the prior year. Excluding the impact of these three expenses, the increase for the period was \$0.6 million or 11.6%. The increase was primarily attributable to additional employee wages and benefits.

Net interest income and other income

(in thousands of U.S. dollars)	Three months ended April 30		
	2024	2023	Change
	\$	\$	%
Net interest income	924	720	28.4%
Foreign exchange gain and other income	290	446	-34.9%
Total net interest and other income (expenses)	1,214	1,166	4.1%
Total percentage of total revenue	2.5%	2.6%	

Net interest income earned for the three months ended April 30, 2024 increased by \$0.2 million to \$0.9 million over the same period of the prior year. The increase was mainly the result of higher cash balance in interest-bearing investments when compared to the previous period. Other income earned for the three months ended April 30, 2024 of \$0.3 million was relatively consistent to the same period in the prior year.

Income (loss) for the period

The income for the three-month period ended April 30, 2024 was \$0.6 million, compared to the income of \$1.1 million in the same period of the prior year, representing a decrease of \$0.5 million as a result of period-over-period changes discussed above.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA (a non-IFRS financial measure, see “Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios”) increased by \$1.2 million to \$4.0 million in the three months ended April 30, 2024 from \$2.8 million in the same period of the prior year.

The increase in Adjusted EBITDA was primarily attributable to increased gross profit for the three months ended April 30, 2024, amounting to \$2.8 million, when compared to the same period in the prior year, as a result of factors discussed above. Excluding the impact of the non-recurring expenses and transaction-related expenses, total operating expenses increased by \$2.0 million for the three months ended April 30, 2024. This included an increase of \$0.3 million of stock-based compensation for the three months ended April 30, 2024, but this was more than offset by increases in revenue and gross profit, as operating leverage is realized on our expenses.

Adjusted EBITDA Margin (a non-IFRS financial measure, see “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”) was 8.3% for the three months ended April 30, 2024, representing an increase of 190 basis points. The increase in Adjusted EBITDA Margin was the result of the increase in Adjusted EBITDA discussed above and was partially mitigated by the impact of increased total revenue over the same period.

Key Balance Sheet Information

(in thousands of U.S. dollars)	As at April 30, 2024	As at January 31, 2024
Total assets	178,351	197,124
Total liabilities	120,882	140,244

Total Assets

April 30, 2024 compared to January 31, 2024

Total assets as at April 30, 2024 were \$178.4 million compared to \$197.1 million as at January 31, 2024, representing a decrease of \$18.7 million or 9.5% period-over-period. The decrease was primarily the result of a \$18.1 million reduction in cash, impacted by the seasonality of our cash flows as further described in the “*Liquidity and Capital Resources – Cash Flows*” section below, as well as a \$2.3 million reduction in prepaid expenses which relates to the amortization decreasing the balance during the period. The decrease in total assets was partially offset by an increase in trade and other receivables of \$2.3 million due to a large outstanding invoice from one customer as of the reporting date. For more details, refer to note 3 in the condensed consolidated interim financial statements for the period ended April 30, 2024.

Total Liabilities

April 30, 2024 compared to January 31, 2024

Total liabilities as at April 30, 2024 were \$120.9 million compared to \$140.2 million as at January 31, 2024, representing a decrease of \$19.3 million. The decrease was primarily due to the reduction in the deferred revenue of \$12.8 million. The decrease in deferred revenue was due to variances in the timing of billings for large customers and is seasonal in nature due to the contractual timing of annual invoicing with our end customers, many of which have a fiscal year end in the second quarter. In addition, accounts payable and accrued liabilities reduced \$6.7 million, driven by timing of payments to vendors and a decrease in annual variable compensation which was accrued as at January 31, 2024.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of operations data for each of the eight quarters ended April 30, 2024. The information for each of these quarters have been prepared on the same basis as the audited annual financial statements. This data should be read in conjunction with our audited annual consolidated financial statements and related notes. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

(in thousands of U.S. dollars, except share and per share data)	3 Months Ended							
	April 30, 2024	Jan 31, 2024	Oct 31, 2023	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022
Revenue	48,495	47,569	46,113	44,470	44,228	42,684	42,668	41,173
Cost of revenue	15,818	15,534	15,513	14,789	14,348	15,358	15,163	14,588
Gross profit	32,677	32,035	30,600	29,681	29,880	27,326	27,505	26,585
Operating expenses								
Sales and marketing	12,905	12,705	12,808	14,961	12,441	14,128	13,803	14,022
Research and development	12,291	12,305	12,351	12,519	11,145	10,562	10,770	10,451
General and administrative	8,099	7,470	7,102	7,312	6,190	6,111	6,524	6,578
Impairment loss on intangible assets	—	—	—	—	—	4,474	—	—
Total operating expenses	33,295	32,480	32,261	34,792	29,776	35,275	31,097	31,051
(Loss) income from operations	(618)	(445)	(1,661)	(5,111)	104	(7,949)	(3,592)	(4,466)
Interest and other income (expenses)	1,214	1,050	1,369	332	1,166	1,772	1,095	(159)
Income (loss) before income taxes	596	605	(292)	(4,779)	1,270	(6,177)	(2,497)	(4,625)
Income tax expense	24	42	95	49	160	9	128	178
Net income (loss)	572	563	(387)	(4,828)	1,110	(6,186)	(2,625)	(4,803)
Earnings (loss) per share – basic	0.01	0.01	(0.01)	(0.09)	0.02	(0.12)	(0.05)	(0.09)
Earnings (loss) per share – diluted	0.01	0.01	(0.01)	(0.09)	0.02	(0.12)	(0.05)	(0.09)
Gross profit as a percentage of revenue	67.4%	67.3%	66.4%	66.7%	67.6%	64.0%	64.5%	64.6%

Revenue

Our total quarterly revenue increased sequentially for all periods presented. The period-over-period increases were primarily attributable to revenue from new customers, strong revenue retention and expansion from existing customers, and delivery of professional services engagements to customers, including the latest figures for the quarter ended April 30, 2024.

Cost of revenue

Our total costs of revenue remained relatively consistent for all periods presented, with the exception of the quarter ended April 30, 2023 where the cost of revenue decreased from the preceding period to \$14.3 million, as a result of ongoing cost optimization efforts in our service delivery. During Fiscal 2024 and the most recent quarter ended April 30, 2024, the average cost of revenues grew to \$15.2 million, which corresponds with the increases seen in total revenues over the same periods.

Gross profit

Our total quarterly gross profit grew sequentially for all periods presented, with the exception of the quarters ended January 31, 2023 and July 31, 2023, where gross profits decreased slightly, compared to the preceding quarter. The period-over-period increases in gross profit levels were mainly the result of growth in both our subscription and support revenue and professional services and other revenue, driven by the increased adoption of education technologies. During Fiscal 2024, total revenues outpaced the growth in the related cost of revenues over the same period, averaging \$30.5 million gross profit per quarter. The gross profit growth in Fiscal 2024 was mainly due to the increase in subscription and support revenue which was primarily attributable to revenue from new customers coupled with cost optimization efforts in our cloud technology and service delivery and partially offset by an increase in partner-related cost of revenue. During the most recent quarter ended April 30, 2024, gross profit increased from prior periods presented, as a result of factors discussed in the “Results of Operations – Gross profit” section above.

Gross profit as a percentage of revenue for the three quarters ended July 31, 2022 through to January 31, 2023 was relatively consistent, averaging 64.4% over the three quarters. Gross profit as a percentage of revenue increased in the following five quarters to an average of 67.1%, remaining relatively consistent. Gross profit as a percentage of revenue for the most recent quarter ended April 30, 2024 was relatively consistent at 67.4% compared to the prior quarter which was 67.3%.

Operating expenses

The total operating expenses in the quarter ended July 31, 2022 and October 31, 2022 are relatively consistent. During the quarter ended January 31, 2023, a non-recurring impairment loss on intangible assets of \$4.5 million was recognized. Excluding this impact, total operating expenses for the quarter ended January 31, 2023, were \$30.8 million, representing a slight decrease from the preceding quarter. Operating expenses decreased slightly to \$29.8 million in the quarter ended April 30, 2023, as a result of reduced advertising and promotional spend as we optimize our go-to-market expenditures and reduction in professional fees spend. Operating expenses increased to \$34.7 million in the quarter ended July 31, 2023, as a result of increased travel and event related cost incurred from our in-person annual customer conference, D2L Fusion when compared to the prior quarters, increase in share-based compensation and increased capacity in research and development. Operating expenses decreased to \$32.3 million in the following quarter ended October 31, 2023 but increased comparatively to prior quarters. The increase was primarily the result of workforce restructuring as a result of the realignment of certain functions to optimize operations. Operating expenses remained relatively consistent at \$32.5 million in the quarter ended January 31, 2024, compared to prior quarter, and was also impacted by workforce restructuring as a result of the realignment of certain functions to optimize operations. Operating expenses increased to \$33.3 million in the most recent quarter ended April 30, 2024, compared to prior quarter. The increase was primarily the result of an increase in wages and benefits, coupled with legal fees that are not indicative of continuing operations, and legal and professional fees incurred for the proposed spin-out of the D2L Wave offering.

Liquidity, Capital Resources and Financing

Overview

The general objectives of our capital management strategy is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development, and inorganic growth when it supports our growth strategy.

We determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and in the risks of the underlying assets. We are not subject to any externally imposed capital requirements.

Working capital

Our primary source of cash flows is revenue from operations. Our approach to managing working capital (defined as total current assets less total current liabilities) is, to the extent possible, ensure that we maintain sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analysis on a monthly basis. As at April 30, 2024, our cash and cash equivalents balance was \$98.9 million and our working capital surplus was \$32.9 million (\$116.9 million and \$32.2 million as at January 31, 2024, respectively). The cash balance as at April 30, 2024 decreased in comparison to the cash balance as at January 31, 2024 as it is impacted by the seasonality of our cash flows as further described in the “Cash Flows” section below. Accordingly, we believe there is sufficient liquidity to meet our current and short-term financial obligations as outlined in the “Contractual Obligations” section of this MD&A, as well as to continue making investments in sales and marketing and research and development activities in support of our overall growth strategy.

Cash flows

The following table presents cash and cash equivalents as at April 30, 2024 and 2023, and cash flows from (used in) operating, investing, and financing activities for the three months ended April 30, 2024 and 2023:

(in thousands of U.S. dollars)	Three months ended April 30	
	2024	2023
Cash and cash equivalents	98,851	92,092
Net cash from (used in):		
Operations	(14,826)	(17,035)
Investing	(126)	(1,649)
Financing	(2,211)	428
Effect of foreign exchange on cash and cash equivalents	(929)	(385)
Net decrease in cash and cash equivalents	(18,092)	(18,641)

Cash flows used in operations

Cash flows used in operating activities for the three months ended April 30, 2024 were \$14.8 million compared to \$17.0 million for the same period of the prior year, representing a decrease of \$2.2 million. The decrease in cash used was primarily attributable to higher cash flows from changes in the Company’s working capital balances, and increased cash collections due to revenue growth, despite one large customer invoice outstanding as of the reporting date. In addition, the decrease in cash flows used was also driven by interest received from cash in high interest savings account, when compared to the previously received amounts.

The Company’s negative Free Cash Flow (a non-IFRS financial measure, see “Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios”) was \$15.0 million for the three months ended April 30, 2024, compared to negative Free Cash Flow of \$18.7 million in the same period of the prior year, representing an increase of \$3.7 million. The increase was primarily driven by less cash flows used in operating activities for the current period of \$2.2 million as discussed above, paired with decreased purchases of property and equipment associated with the relocation of our head office of \$1.5 million.

For the three months ended April 30, 2024, negative Free Cash Flow Margin (a non-IFRS ratio, see “Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios”) was 30.8%, compared to negative 42.2% in the same period of the prior year, representing an increase of 1140 basis points. The period-over-period increases were primarily the result of higher Free Cash Flow when compared to the prior period based on the factors discussed above.

Cash flows used in investing activities

Cash flows used in investing activities for the three months ended April 30, 2024, were \$0.1 million, compared to cash flows used in investing activities of \$1.6 million for the same period of the prior year, representing a decrease in cash flows used of \$1.5 million. This decrease was primarily due to \$1.7 million in purchases of property and equipment, primarily for leasehold improvements of the new head office space in Kitchener, during the same period prior year.

Cash flows from (used in) financing activities

Cash flows used in financing activities were \$2.2 million for the three months ended April 30, 2024, decreased by \$2.6 million compared to \$0.4 million of cash flows from financing activities in the same period of the prior year. The decrease in cash flows was primarily attributable to taxes paid on settlement of restricted share units and from the repurchase of shares as part of our Normal Course Issuer Bid ("NCIB"), partially offset by additional proceeds received from the exercise of stock options.

Subordinate Voting Shares repurchase for cancellation under normal course issuer bid

On December 5, 2023, the Company announced the launch of a NCIB to be effected through the facilities of the Toronto Stock Exchange ("TSX"). The NCIB permits the Company to repurchase for cancellation up to 1,299,633 of the Company's Subordinate Voting Shares, representing approximately 10.0% of the "public float" (within the meaning of the rules of the TSX), during the twelve-month period commencing December 8, 2023.

In connection with the NCIB, the Company entered into an automatic share purchase plan ("ASPP") with its designated broker for the purpose of allowing the broker, on behalf of the Company, to purchase the Company's Subordinate Voting Shares under the NCIB during the Company's self-imposed trading blackout periods. Under the ASPP, the broker is authorized to repurchase Subordinate Voting Shares during blackout periods, without consultation with the Company, on predefined terms, including share price, time period and subject to other limitations imposed in advance by the Company and subject to rules and policies of the TSX and applicable securities laws, such as a daily purchase restriction.

During the three month period ended April 30, 2024, the Company repurchased and cancelled 131,380 Subordinate Voting Shares under the NCIB for an aggregate purchase price of \$1,021,919, which was recorded as a reduction of share capital. As at January 31, 2024, the Company recognized a liability and a charge to deficit of \$2,264,410 for the repurchase of Subordinate Voting Shares under the ASPP within accounts payable and accrued liabilities, as an estimate of the maximum number of shares that could be repurchased during the blackout period. As at April 30, 2024, the Company has reassessed the liability as \$1,980,229 for the repurchase of Subordinate Voting Shares under the ASPP within accounts payable and accrued liabilities, as an estimate of the maximum number of shares that could be repurchased during the blackout period. This resulted in a change of the estimate made as at January 31, 2024 in the amount of \$284,181 charged to deficit.

Contractual obligations

The following are the remaining contractual maturities of financial liabilities as at April 30, 2024. The amounts are gross and undiscounted and include contractual interest payments, if any:

(in thousands of U.S. dollars)	Payments due by period				
	Total	< 1 year	1-3 years	4-5 years	After 5 years
Accounts payable, accrued liabilities & contingent consideration	26,544	26,231	313	—	—
Operating commitments ⁽¹⁾	22,923	4,861	7,649	1,492	8,921
Total contractual obligations	49,467	31,092	7,962	1,492	8,921

Notes:

(1) Includes operating lease commitments and commitments with a third-party cloud technology services provider.

Financial Outlook

Financial Guidance FY2025

The Company is maintaining its previous financial guidance for the year ended January 31, 2025 as follows:

- Subscription and support revenue in the range of \$177 million to \$180 million, implying growth of 10% at the midpoint over Fiscal 2024;
- Total revenue in the range of \$197 million to \$201 million, implying growth of 9% at the midpoint over Fiscal 2024; and
- Adjusted EBITDA in the range of \$21 million to \$23 million, implying Adjusted EBITDA margin of 11% at the midpoint.

The Company expects revenue and Adjusted EBITDA to increase as Fiscal 2025 progresses, enabling the Company to exit the year with low-to-mid-teen Adjusted EBITDA Margin.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recent Developments- Acquisition of Connected Shopping Ltd

On May 9, 2023, D2L Europe Ltd., an indirect subsidiary of the Company, acquired all of the outstanding shares of Connected Shopping Ltd, a SaaS e-commerce and course catalog company and the maker of Course Merchant. This acquisition allows the Company to deliver Course Merchant as a part of its own suite of products to address the growing needs of higher education and training organizations worldwide.

The acquisition was accounted for as a business combination under the acquisition method. The purchase price consisted of cash consideration of \$2.9 million, which was subject to post-closing working capital adjustments, contingent consideration with a fair value at the date of acquisition of \$0.6 million and the effective settlement of the pre-existing prepaid balance of \$0.3 million resulting in total consideration of \$3.9 million. Upon revaluation as at April 30, 2024, the liability associated with the contingent consideration decreased in the condensed consolidated interim statements of financial position, and has a potential maximum contractual payment of \$0.7 million. The contingent consideration is payable to the selling shareholders upon achieving certain customer churn targets by the first and second anniversary dates following the acquisition.

There are payments up to \$0.7 million in the form of post-combination compensation which are subject to the continued employment of specific employees, on the first and second anniversary dates following the acquisition in equal installments of \$0.35 million. The Company incurred acquisition related costs of \$0.1 million for the period ended April 30, 2024, primarily including post-combination compensation, which is recorded within General and Administrative expenses and Research and Development expenses.

The details of the net assets acquired, and other preliminary information is disclosed in Note 11 of the Company's condensed consolidated interim financial statements.

Contingencies

From time to time, we may be contingently liable with respect to litigation and claims that arise in the normal course of operations. We are of the opinion that current litigation will not have a significant effect on the financial position, results of operations, or cash flows of D2L. As at April 30, 2024, no material contingencies have been identified with respect to litigation or claims.

Related Party Transactions

Service Arrangements with Related Parties

In the normal course of business, we obtain services from and provide services to related parties, as further described below. Note 8 of the condensed consolidated interim financial statements provide additional details on our related party transactions:

Services we receive:

See also “*Related Party Transactions – Services we receive*” in our Annual MD&A.

Lease of Premises - Catalyst

On October 15, 2021, D2L Corporation entered into a lease agreement with Catalyst 137 Kitchener L.P (“**Catalyst**”) for office space in Kitchener, Ontario (the “**Kitchener Lease**”). John Baker, the Company’s Chief Executive Officer (“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 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 \$448,473 for the three months ended April 30, 2024 (2023 - \$491,394). D2L Corporation has the following cash flow commitment relating to the Kitchener Lease:

(in thousands of dollars)	CAD	USD
May 1, 2024 - January 31, 2025	1,347	984
February 1, 2025 - January 31, 2026	1,859	1,358
February 1, 2026 - January 31, 2027	1,938	1,416
February 1, 2027 - January 31, 2028	2,020	1,476
February 1, 2028 - July 31, 2033	12,736	9,306
Total undiscounted commitment	19,900	14,540

Services we provide:Subscription and support services to Virtual High School (Ontario)

We provide e-Learning subscription and support services to VirtualHighSchool.com Inc. (“**VHS**”), a corporation in which John Baker had a minority interest. VHS is controlled by family members of John Baker.

The Company entered into a master agreement with VHS dated December 19, 2013 (as amended, the “**Virtual High School Agreement**”), pursuant to which we provide e-Learning subscription and support services to VHS, which offers virtual private high school courses. The Virtual High School Agreement was approved by the Board, John Baker abstaining, following declaration by John Baker of his conflict of interest.

Revenue recognized by us pursuant to the Virtual High School Agreement was \$20,516 for the three months ended April 30, 2024 (2023 - \$22,239). As at April 30, 2024, the Company had nil (January 31, 2024 - \$10,768) in trade receivables from this related party.

The Virtual High School Agreement was renewed on November 23, 2023 for an additional three-year term that ends on December 31, 2026.

Proposed spin-out of the D2L Wave offering

On April 3, 2024, the Company, entered into a binding letter agreement (the “Letter Agreement”) to, among other things, spin-out the D2L Wave service offering into a standalone independent legal entity, SkillsWave Corporation (“SkillsWave”), and sell a majority interest in such entity.

A corporation owned by John Baker, the Company’s CEO, has agreed to purchase the majority ownership of SkillsWave from the Company. The Board of Directors constituted a Special Committee (the “Special Committee”) of independent directors of the Company to assess and advise the Board with respect to the transaction, and oversee its negotiation, as well as to assess

possible alternatives. The Special Committee determined that the transaction would be in the best interests of the Company and recommended that the Board approve the entering into of the Letter Agreement, which the Board of Directors approved, with John Baker abstaining and being recused on account of his conflict of interest in the matter.

Pursuant to the Letter Agreement, the parties have agreed to enter into definitive agreements by mid-year.

A corporation owned by John Baker will acquire 70% equity interest in SkillsWave from the Company in exchange for consideration of C\$1,120,000 payable in cash. The nature of the assets that are being acquired as part of that equity interest consist of certain assets including, internally generated intangible assets, working capital balances and certain contracts associated with the D2L Wave product. The Company will retain a 30% ownership interest in SkillsWave, as well as minority Board representation.

The Company has agreed to provide a loan to SkillsWave in the amount of \$9,500,000 maturing in five years and payable at maturity, bearing interest at the Canadian prime rate per annum, compounded annually. The loan will be advanced in tranches with \$5,000,000 advanced upon closing of the transaction, and the remaining \$4,500,000 advanced upon the six-month anniversary of closing. The loan principal and accrued interest will be convertible at the option of the Company into non-voting shares of SkillsWave, that together with any shares acquired at closing and retained by D2L, may not exceed a maximum 37.5% ownership interest in SkillsWave. The loan is to be secured by all assets of SkillsWave constituting first priority security interest, subjected to permitted liens.

The Company has agreed to enter into a Transition Services Agreement with SkillsWave, to provide administrative services on a cost recovery basis to support the orderly transition of the Wave service offering from D2L to SkillsWave, which transition is expected to be completed on or before January 31, 2025, subject to permitted extensions.

Financial Instruments and Other Instruments

Credit and concentration risk

Financial instruments that potentially subject us to a significant concentration of credit risk consist primarily of cash and cash equivalents and trade and other receivables. We limit our exposure to credit risk by placing our cash and cash equivalents with high credit quality financial institutions.

As at April 30, 2024, one customer accounted for more than 10% of the net trade receivables. Furthermore, trade receivable balances are managed and analyzed on an ongoing basis to ensure allowances for doubtful accounts are established and maintained at an appropriate amount.

We estimate anticipated losses from doubtful accounts based on historical collection experience and an evaluation of the potential risk of loss associated with specific accounts. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the amount we reasonably believe will be collected. Impairment losses are charged to general and administrative expense in the consolidated statement of comprehensive loss. Receivables for which an impairment provision was recognized are written off against the corresponding provision when it is deemed permanently uncollectible.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. We do not hold any collateral as security.

Liquidity risk

We limit our liquidity risk associated with our financial liabilities through the use of cash flows generated from operations, combined with the strategic issuance of additional equity, as required, to meet the capital requirements of maturing financial liabilities.

Our accounts payable have contractual maturities of 30 days or are due on demand and subject to normal trade terms. Due to our significant cash and cash equivalent balances and trade and other receivable balances, we continue to expect that these sources will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments, capital expenditures and operating needs for the next 12 months.

Foreign currency exchange risk

We are exposed to foreign currency exchange risk as a portion of our revenues and operating costs are realized in currencies other than our U.S. functional currency. Significant currencies to which our Company has exposure include the Canadian dollar (“CAD”), British pound sterling (“GBP”), Australian dollar (“AUD”), Singapore dollar (“SGD”), Brazilian real (“BRL”) and Euro (“EUR”).

Additional earnings volatility arises from the translation of our monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of our consolidated balance sheets. The summary quantitative data about our exposure to currency risk as at April 30, 2024 is as follows:

(In thousands of local currency)	CAD	GBP	AUD	SGD	BRL	EUR
Cash and cash equivalents	11,649	4,219	9,203	5,607	20,782	5,302
Trade and other receivables	21,395	597	84	771	1,549	512
Uninvoiced revenue	1,498	147	10	343	3,552	—
Accounts payable and accrued liabilities	22,166	1,457	1,267	203	346	14

We limit our exposure to foreign currency exchange risk by holding cash denominated in the local currency sufficient to cover local currency expenditures, thereby creating a natural hedge. We have not entered into any arrangements to hedge our exposure to currency risk.

Fair value risk

Financial instruments that potentially subject us to significant fair value risk consist primarily of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities. For all financial instruments currently held, their carrying values approximate their fair values due to their short-term nature.

Contingent consideration is classified as a Level 3 financial instrument as the inputs are not observable and there is no market-based activity. The fair value of the contingent consideration has been calculated based on expected future revenue from existing customers and discount rates and was \$599,305 as at the acquisition date. At January 31, 2024 and April 30, 2024, management determined that the fair values of the contingent consideration were \$583,318 and \$569,616 respectively, resulting in other income of \$13,702.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review our estimates on an ongoing basis based on our best knowledge of current events and actions that we may undertake in the future. Revisions to estimates are recognized prospectively. Actual results could differ from those estimates.

Areas requiring the most significant judgments, estimates and assumptions are consistent with those discussed in our Annual MD&A.

We have determined that we operate in a single operating and reportable segment.

Material Accounting Policies

The material accounting policies used in the preparation of our consolidated financial statements are described in note 2 of our audited annual consolidated financial statements for the year ended January 31, 2024. The accounting policies used in our

unaudited condensed consolidated interim financial statements for the three months ended April 30, 2024, which have been prepared in accordance with IFRS, are consistent with those applied in our audited annual consolidated financial statements for the year ended January 31, 2024, other than the following which is effective from annual periods beginning on or after February 1, 2024.

Amendments to IAS 1, which provides 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. Amendments to IFRS 16, which include additional requirements to explain how a company accounts for a sale and leaseback after the date of transaction. None of the aforementioned amendments had a significant impact to our condensed consolidated interim financial statements for the period ended April 30, 2024.

Recently Issued Accounting Standards Not Yet Adopted

From time to time, new accounting pronouncements are issued by the IASB or other standards-setting bodies and are adopted as of the specified effective date. As at the date of this MD&A, we have not yet applied the following new and revised IFRS Standards that have been issued but are not yet effective.

The IASB issued amendments to IAS 21, which includes the effects of changes in foreign exchange rates, which clarify the impact of using an estimated exchange rate on financial statements when a currency is not exchangeable. The amendment to IAS 21 is effective for annual reporting periods beginning on or after February 1, 2025. While we are currently evaluating the impact of these amendments, we do not expect any significant impacts to our consolidated financial statements.

The IASB published IFRS 18, Presentation and Disclosure in Financial Statements (replacing IAS 1, Presentation of Financial Statements), which includes improvements on how information is communicated in the financial statements, with a focus on information in the statement of income. The new standard is effective for annual periods beginning on or after February 1, 2027. We are assessing the impacts IFRS 18 will have on our consolidated financial statements.

Internal Controls Over Financial Reporting

Our internal controls over financial reporting (as that term is defined in NI 52-109, (“ICFR”) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, including the CEO and Chief Financial Officer, does not expect that our ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation. There have been no changes in our ICFR during the period beginning on February 1, 2024 and ended on April 30, 2024 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Authorized Share Capital

As at April 30, 2024, our authorized share capital consists of (i) an unlimited number of Subordinate Voting Shares, (ii) an unlimited number of Multiple Voting Shares, and (iii) an unlimited number of preferred shares, issuable in series. The Subordinate Voting Shares and Multiple Voting Shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of the liquidation, dissolution or winding up of the Company.

As of May 28, 2024, 26,959,704 Subordinate Voting Shares, 27,390,588 Multiple Voting Shares, and employee stock options under the Company’s legacy option plan to purchase a total of 1,490,053 Subordinate Voting Shares are issued and outstanding. In addition, the Company had 3,500,239 restricted stock units (“RSUs”) issued and outstanding and 332,642 deferred share units (“DSUs”) issued and outstanding under the Company’s Long Term Incentive Plan. These RSUs and DSUs may ultimately be settled through the issuance of Subordinate Voting Shares on a 1:1 basis.