THINKIFIC LABS INC.
Consolidated Financial Statements

For the years ended December 31, 2023 and 2022
(expressed in U.S. dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Thinkific Labs Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(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 December 31, 2023 and December 31, 2022 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 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 qualifying criteria for hedge accounting

Description of the matter

As described in Notes 3 and 19 of the financial statements, the Entity has entered into foreign exchange forward contracts and has designated the spot foreign exchange rate component of the contracts as hedging instruments to mitigate the foreign currency risk associated with forecast payroll expenditures denominated in Canadian dollars. To meet the criteria for hedge accounting, the Entity assessed if each hedging relationship is expected to be and has been effective in offsetting changes in the hedged item based on critical terms match and whether the forecast payroll expenditures are highly probable (together, the “qualifying criteria”).

Why the matter is a key audit matter

We identified the evaluation of qualifying criteria for hedge accounting as a key audit matter. This matter represented an area of higher assessed risk of material misstatement.

How the matter was addressed

The following are the primary procedures we performed to address this key audit matter.

- We assessed whether the critical terms of the hedging instrument and the hedged item are aligned through inspection of the forward foreign exchange contracts and the related payroll transactions.
- We assessed the Entity’s ability to accurately predict the probability of the hedged transactions occurring by comparing forecast payroll expenditures to actual results.

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.

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.

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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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 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

The engagement partner on the audit resulting in this auditor's report is Tara Gill.

Vancouver, Canada

March 4, 2024

THINKIFIC LABS INC.

Consolidated Statements of Financial Position

(expressed in U.S. dollars)

	Notes	December 31, 2023 $	December 31, 2022 $
Assets			
Current assets			
Cash and cash equivalents		86,610,721	93,846,091
Trade and other receivables	8	4,097,321	2,712,671
Prepaid expenses and other assets		3,173,932	1,797,108
Contract acquisition assets	10	527,738	322,643
Lease receivable	11	159,748	—
Derivative asset	19	569,803	—
Total current assets		95,139,263	98,678,513
Property and equipment	9	853,245	1,507,600
Lease right-of-use assets	11	812,367	2,005,835
Contract acquisition assets	10	874,709	660,185
Intangible assets		109,530	118,275
Lease receivable	11	5,540	—
Total assets		**97,794,654**	**102,970,408**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	12	5,294,145	4,927,349
Lease liabilities	11	555,024	443,928
Deferred revenue	5	9,528,815	8,238,516
Total current liabilities		15,377,984	13,609,793
Lease liabilities	11	476,595	1,512,180
Total liabilities		**15,854,579**	**15,121,973**
Shareholders' equity			
Share capital	15	147,739,303	146,179,189
Contributed surplus		8,667,182	6,925,869
Accumulated other comprehensive income (loss)	19	531,690	(38,113)
Accumulated deficit		(74,998,100)	(65,218,510)
Total shareholders' equity		**81,940,075**	**87,848,435**
Total liabilities and shareholders' equity		**97,794,654**	**102,970,408**
Commitments	19		

The accompanying notes are an integral part of these consolidated financial statements.

THINKIFIC LABS INC.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in U.S. dollars)

		Years ended December 31,	
		2023	**2022**
	Notes	**$**	**$**
Revenue	5,20	59,054,073	51,476,010
Cost of revenue	4,6,7	14,492,581	12,362,462
Gross profit		**44,561,492**	**39,113,548**
Operating expenses			
Sales and marketing	7,10	20,767,447	25,670,240
Research and development	7	19,470,932	27,450,046
General and administrative	7,9,11	14,924,054	16,936,764
Restructuring	4	2,940,734	2,287,885
Total operating expenses		58,103,167	72,344,935
Operating loss		**(13,541,675)**	**(33,231,387)**
Other income (expenses)			
Finance income		3,477,412	1,427,801
Foreign exchange gain (loss)		434,299	(4,618,051)
Loss on disposal of property and equipment	9	(149,626)	—
Total other income (expenses)		3,762,085	(3,190,250)
Net loss		**(9,779,590)**	**(36,421,637)**
Other comprehensive income			
Unrealized gain on derivatives	19	569,803	—
Total comprehensive loss		**(9,209,787)**	**(36,421,637)**
Weighted average number of common shares outstanding - basic and diluted		80,775,745	78,701,528
Loss per share			
Basic and diluted	17	$ (0.12)	$ (0.46)

The accompanying notes are an integral part of these consolidated financial statements.

THINKIFIC LABS INC.

Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Notes	Years ended December 31, 2023 $	2022 $
Cash from (used in):			
Operating activities			
Net loss		(9,779,590)	(36,421,637)
Items not affecting cash and cash equivalents:			
Depreciation and amortization	9, 10,11	1,341,555	1,195,702
Loss on disposal of property and equipment	9, 11	149,626	—
Stock-based compensation	4, 7,16	5,751,065	2,786,162
Unrealized foreign exchange (gain) loss		(447,572)	4,652,441
Finance expense		(3,477,412)	(1,427,801)
Interest received		3,148,782	1,247,030
Changes in non-cash working capital:			
Trade and other receivables	8	(605,103)	(1,041,275)
Prepaid expenses and other assets		(1,467,310)	938,071
Contract acquisition assets	10	(820,379)	(652,784)
Accounts payable and accrued liabilities	12	(510,094)	1,260,932
Deferred revenue	5	1,290,299	1,609,767
Cash used in operating activities		**(5,426,133)**	**(25,853,392)**
Investing activities			
Proceeds on disposal of property and equipment		70,974	—
Investment in property and equipment	9	(17,604)	(1,232,537)
Investment in intangible assets		—	(26,984)
Cash from (used in) investing activities		**53,370**	**(1,259,521)**
Financing activities			
Operating lease payments	11	(531,705)	(521,952)
Payments received on net investment in finance lease	11	73,289	—
Exercise of stock options	16	230,554	280,768
Tax remittances on stock based compensation	16	(1,286,394)	—
Shares repurchased for cancellation under normal course issuer bid	15	(900,158)	—
Cash used in financing activities		**(2,414,414)**	**(241,184)**
Effect of foreign exchange on cash and cash equivalents		551,807	(4,854,645)
Decrease in cash and cash equivalents		(7,235,370)	(32,208,742)
Cash and cash equivalents, beginning of year		93,846,091	126,054,833
Cash and cash equivalents, end of year		**86,610,721**	**93,846,091**

The accompanying notes are an integral part of these consolidated financial statements.

THINKIFIC LABS INC.

Consolidated Statements of Changes in Shareholders' Equity

(expressed in U.S. dollars)

	Notes	Issued and outstanding						
		Number of Shares	Share capital $	Contributed surplus $	Accumulated other comprehensive loss $	Accumulated deficit $	Total $
Balance as at December 31, 2021		**77,254,975**	**145,583,011**	**4,865,646**	**(38,113)**	**(28,796,873)**	**121,613,671**
Net loss and comprehensive loss		—	—	—	—	(36,421,637)	(36,421,637)
Exercise of stock options	16	2,411,941	546,320	(265,552)	—	—	280,768
Release of share awards	16	4,256	49,858	(49,858)	—	—	—
Stock-based compensation	7, 16	—	—	2,375,633	—	—	2,375,633
Balance as at December 31, 2022		**79,671,172**	**146,179,189**	**6,925,869**	**(38,113)**	**(65,218,510)**	**87,848,435**
Balance as at December 31, 2022		**79,671,172**	**146,179,189**	**6,925,869**	**(38,113)**	**(65,218,510)**	**87,848,435**
Net loss		—	—	—	—	(9,779,590)	(9,779,590)
Exercise of stock options	16	1,011,451	446,573	(216,019)	—	—	230,554
Release of share awards, net of shares withheld for taxes	16	1,069,420	2,013,699	(3,300,093)	—	—	(1,286,394)
Stock-based compensation	7, 16	—	—	5,257,425	—	—	5,257,425
Shares repurchased for cancellation under normal course issuer bid	15	(393,336)	(900,158)	—	—	—	(900,158)
Unrealized gain on derivatives	19	—	—	—	569,803	—	569,803
Balance as at December 31, 2023		**81,358,707**	**147,739,303**	**8,667,182**	**531,690**	**(74,998,100)**	**81,940,075**

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and nature of operations

Thinkific Labs Inc. ("Thinkific" or the "Company") was incorporated on April 11, 2012 under the laws of British Columbia. Its head office is located at 400 - 369 Terminal Avenue, Vancouver, British Columbia, Canada.

The Company's primary business activity is to provide a platform that helps entrepreneurs and established businesses to scale and generate revenue by teaching what they know. The Company's platform provides its customers with the functionality needed to launch, grow, and diversify their businesses by creating and selling learning products composed of customized courses, communities, membership sites, and other experiences that customers can create, sell and deliver using the Company's platform.

The Company's Subordinate Voting Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "THNC".

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved for issue by the Company's Board of Directors on March 4, 2024.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value as described in Note 19 below.

The Company's functional currency is the U.S. dollar and all amounts are reported in U.S. dollars unless otherwise noted. References to "CAD" refers to the Canadian dollar. Transactions in foreign currencies are translated into the Company's functional currency on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Basis of consolidation

These consolidated financial statements consist of the financial statements of the Company and its wholly owned subsidiary, Thinkific.com Inc. The financial statements of the wholly owned subsidiary are prepared for the same period as the Company, using consistent accounting policies. All intercompany balances and transactions have been eliminated upon consolidation.

Use of judgements and estimates

In the preparation of these consolidated financial statements, management has made judgements and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Management reviews its estimates and underlying assumptions on an ongoing basis based on management's best knowledge of current events and actions that the Company may undertake in the future. Revisions to estimates are recognized prospectively.

The following are the key judgements, estimates and assumptions management considers to be material to the consolidated financial statements.

Revenue recognition

Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Determining if the Company is the principal or agent when another party is involved in providing services to customers is a matter of judgement that depends on the facts and circumstances of each arrangement. In these instances, determining whether the nature of the Company's promise is a performance obligation to provide the specified services itself (as principal) or arranging for those services to be provided by the other party (as agent) may require significant judgement.

Stock-based compensation

The Company measures the cost of stock-based awards with employees by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for stock-based compensation requires determining the most appropriate valuation model for a grant, which depends on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including: the fair value of the underlying shares, the expected life of the option, volatility, forfeiture rate, risk-free rate and dividend yield. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate.

Deferred tax assets

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible.

Management's judgement is required to determine the amount of deferred income tax assets that can be recognized, based upon the probability of the timing and the level of future taxable income together with future tax planning strategies.

3. Material accounting policies

The Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand the other information in the financial statements. The amendments did not result in any changes to the accounting policies themselves.

Revenue recognition

The Company's primary sources of revenue consists of software subscriptions to its cloud-based platform and revenue from payment processing.

Subscription revenue

The Company's cloud-based platform provides customers with the right to access its software through the internet, and presents a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. These services are made available to the customer continuously throughout the contractual period. However, the extent to which the customer uses the services may vary at the customer's discretion.

A performance obligation is a commitment in a contract with a customer to transfer products or services that are distinct. The Company's cloud-based platform is considered to have a single performance obligation where the customer simultaneously receives and consumes the benefit, and as such revenue is recognized rateably over the term of the contractual agreement.

The Company generally receives payment for the full subscription contract upfront. In all other cases, payment terms and conditions vary by contract type, although terms generally include a requirement for payment within 30 days of the invoice date. In instances where the timing of revenue recognition differs from the timing of invoicing and subsequent payment, the Company has determined that such contracts generally do not include a significant financing component.

Sales tax collected from customers and remitted to government authorities are excluded from revenue.

Money-back guarantee

The Company offers customers a 30-day money back guarantee whereby customers are permitted to receive a full refund within 30 days from initiation of the contract. Revenue is reduced for returns based on the estimate of future returns originating from subscription agreements with customers.

Deferred revenue

Payments received in advance of services being rendered are recorded as deferred revenue and recognized rateably over the requisite service period.

Commerce revenue

The Company offers commerce solution tools, including an online payment processing solution which facilitates payment for the sale of customers' learning products to their students. Revenue is generated from the payment processing solution through the charge of transaction fees. Revenue is recognized upon transaction on a gross basis, as the Company has determined it is the principal in the arrangement.

The Company also earns a share of revenue through agreements with our integrated commerce partners, including third party payment processors and other commerce providers. The Company recognizes this revenue as it is earned.

Contract acquisition assets

The Company capitalizes the incremental costs of obtaining sales contracts as contract acquisition assets. These costs consist of sales commissions earned by the Company's sales force, as well as employee incentives earned under compensation plans that are tied to the value of long-term customer contracts acquired. Contract acquisition assets are generally amortized on a straight-line basis commensurate with the average term of the related contracts. Amortization of contract acquisition assets is included in sales and marketing expenses.

Stock-based compensation

The Company accounts for stock-based awards based on the fair value of the award measured at the grant date. Accordingly, stock-based compensation cost is recognized in the statement of loss and comprehensive loss as an expense over the period during which services are provided in exchange for the award, generally the vesting period, on a graded vesting basis.

The fair value of stock options is determined using the Black-Scholes option-pricing model. An estimate of forfeitures is applied when determining compensation expense. The Company determines the fair value of stock option awards on the date of grant using assumptions regarding expected term, share price volatility over the expected term of the awards, risk-free interest rate, and dividend rate.

The fair values of restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs") are measured using the fair value of the Company's shares as if the units were vested and issued on the grant date. An estimate of forfeitures is applied when determining compensation expense.

For equity-settled awards, the expense is based on the fair value of the award and recognized as described above, with a corresponding increase in equity. Cash-settled awards are classified as liabilities and the expense is based on the fair value of the award and recognized as described above, with a corresponding increase in liability. The fair value of the accrued liability is remeasured at each reporting period based on the prevailing Thinkific Subordinate Voting Share price at each period-end.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the following methods and annual rates:

Asset	Basis	Rate
Computer and other equipment	Straight-line	3 years
Office furniture and equipment	Declining balance	20 %
Leasehold improvements	Straight-line	Shorter of initial lease term or useful life

Leases

Leases as lessee

At inception of a contract, the Company determines if the arrangement is a lease based on if the contract conveys the right of control for the use of an identified asset for a specified period of time in exchange for consideration. For contracts that contain a lease, the Company recognizes a right-of-use asset and lease liability on the lease commencement date, which is the date the lease asset is available for use.

The lease liability is measured at the present value of the future minimum lease payments over the lease term discounted using the Company's incremental borrowing rate if the rate implicit in the lease is not readily available.

The right-of-use asset is initially measured at cost, which is 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. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The Company includes renewal options in the measurement of lease obligations and the related right-of-use assets when management is reasonably certain to exercise the renewal option.

The lease liability is remeasured when there is a change in the future lease payments arising from contractual changes in the lease term or scope or if the Company changes its assessment of whether it will exercise an extension or termination option. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The carrying values of right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment loss, if any, would be recorded as the excess of carrying value over its recoverable value. The Company did not identify any indicators of impairment for the periods presented.

Lease as a lessor

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses if the lease is a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease and makes an overall assessment if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of the assessment, the Company considers whether the lease is for the major part of the economic life of the asset.

Impairment of long-lived assets

The Company evaluates the carrying amount of its property and equipment and intangible assets with finite useful lives to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss, if any, would be recorded as the excess of the carrying value over the recoverable amount. The Company did not identify any indicators of impairment for the periods presented.

Income taxes

Deferred tax

Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized.

The Company considers many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative loss experience and expectations of future earnings, capital gains and investment in the applicable jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

Fair value

'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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The Company's accounting policies and disclosures require the measurement of fair values for its financial instruments (see Note 19).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Financial instruments

Initial recognition and measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for items not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to their acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Subsequent to initial measurement, these assets are measured as follows:

- **FVTPL** - these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss (see below for derivatives designated as hedging instruments).
- **Amortized cost** - these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized through profit or loss.
- **Debt investments at FVOCI** - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to income.
- **Equity investments at FVOCI** - these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Impairment of financial assets

The Company assesses whether there is evidence that trade receivables are impaired at each reporting date. The Company uses the simplified approach for measuring impairment for its trade receivables as they do not have a significant financing component, and all contracts are one year or less. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. Trade receivables are written off when there is no reasonable expectation of recovery.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss (see below for derivatives designated as hedging instruments).

Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk and has designated these contracts as cash flow hedging instruments. The Company does not use derivative financial instruments for speculative purposes.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value is recognized in other comprehensive loss and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive loss is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the change in the fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The amount accumulated in the hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

The company presents hedging instruments in derivative assets on its balance sheet.

Share capital

The Company's Subordinate Voting Shares are classified as equity. Incremental costs attributable to the issue or cancellation of the Company's Subordinate Voting Shares are recognized as a deduction from equity, net of any tax effects. When the company repurchases its own Subordinate Voting Shares, share capital is reduced by the average carrying value of the shares repurchased. The difference between the purchase price and the carrying value is recognized into share capital. Shares are canceled upon repurchase.

Future accounting standards

New accounting pronouncements issued by the IASB or other standards-setting bodies are adopted as of the specified effective date. The Company does not expect that any new or amended standards or interpretations that are effective for annual periods beginning on or after January 1, 2024 will have a significant impact on the Company's consolidated financial statements.

4. Restructuring

Restructuring expense primarily relates to employee compensation and includes the reversal of non-cash stock-based compensation expense for forfeited unvested stock options.

Restructuring expense relates to the following expense categories:

	Year ended December 31, 2023		
	Stock-based compensation expense reversal	Restructuring costs	Restructuring costs, net
	$	$	$
Cost of revenue	(53,655)	518,357	464,702
Sales and marketing	(16,576)	174,267	157,691
Research and development	(396,338)	2,285,853	1,889,515
General and administrative	(28,024)	456,850	428,826
	(494,593)	**3,435,327**	**2,940,734**

	Year ended December 31, 2022		
	Stock-based compensation expense reversal	Restructuring costs	Restructuring costs, net
	$	$	$
Cost of revenue	(100,329)	508,069	407,740
Sales and marketing	(231,806)	969,929	738,123
Research and development	(147,559)	787,720	640,161
General and administrative	(107,891)	609,752	501,861
	(587,585)	**2,875,470**	**2,287,885**

5. Revenue from contracts with customers

The disaggregation of the Company's revenue is as follows:

	Years ended December 31,	
	2023	2022
	$	$
Subscription revenue	53,301,379	48,472,201
Commerce revenue	5,752,694	3,003,809
	59,054,073	**51,476,010**

In the prior year financial statements, commerce revenue was classified as part of subscription revenue.

<u>Contract liabilities</u>

As at December 31, 2023, the Company has deferred revenue of $9,528,815 (December 31, 2022 - $8,238,516). For the year ended December 31, 2023, $8,238,516 of revenue recognized was included in the deferred revenue balance at the beginning of the year (year ended December 31, 2022 - $6,628,749).

6. Cost of revenue

	Years ended December 31, 2023	2022
	$	$
Subscription revenue	10,727,545	10,438,270
Commerce revenue	3,765,036	1,924,192
	14,492,581	**12,362,462**

7. Employee compensation

Employee compensation is primarily comprised of salaries and benefits and stock-based compensation expense. Excluding restructuring charges, total employee compensation for the year ended December 31, 2023 was $36,517,175 (year ended December 31, 2022 - $47,361,299).

Stock-based compensation expense (Note 16) was included in the following expense categories:

	Years ended December 31, 2023	2022
	$	$
Cost of revenue	812,234	561,947
Sales and marketing	1,461,483	462,601
Research and development	2,216,493	1,305,005
General and administrative	1,755,448	1,044,193
Restructuring (1)	(494,593)	(587,584)
	5,751,065	**2,786,162**

(1) Relates to the reversal of stock-based compensation expense for forfeiture of unvested stock options. See Note 4 for further details.

8. Trade and other receivables

	December 31, 2023	December 31, 2022
	$	$
Trade receivables	2,894,139	2,304,855
Other receivables	1,203,182	407,816
	4,097,321	**2,712,671**

As at December 31, 2023, the Company’s trade and other receivables balance included an allowance for credit loss of $44,000 (December 31, 2022 - $31,000). Trade receivables are grouped based on shared credit risk characteristics and the days past due. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses.

9. Property and equipment

Property and equipment consists of computer and other equipment, office furniture, and leasehold improvements. Depreciation of property and equipment is included in general and administrative expenses.

	Computer and other equipment	Office furniture	Leasehold improvements	Total
	$	$	$	$
Cost				
As at December 31, 2021	203,361	428,525	472,030	1,103,916
Additions	950,844	90,445	191,248	1,232,537
As at December 31, 2022	1,154,205	518,970	663,278	2,336,453
Additions	14,673	—	2,931	17,604
Disposals	(176,411)	(89,831)	(122,065)	(388,307)
As at December 31, 2023	**992,467**	**429,139**	**544,144**	**1,965,750**
Accumulated depreciation				
As at December 31, 2021	64,503	61,423	211,422	337,348
Depreciation expense	260,563	84,415	146,527	491,505
As at December 31, 2022	325,066	145,838	357,949	828,853
Depreciation expense	332,308	65,310	67,465	465,083
Disposals	(67,993)	(37,379)	(76,059)	(181,431)
As at December 31, 2023	**589,381**	**173,769**	**349,355**	**1,112,505**
Net book value				
As at December 31, 2022	829,139	373,132	305,329	1,507,600
As at December 31, 2023	**403,086**	**255,370**	**194,789**	**853,245**

10. Contract acquisition assets

Contract acquisition costs consist of sales commissions earned by the Company’s sales force, as well as employee incentives earned under compensation plans that are tied to the value of long-term customer contracts acquired. Amortization of contract acquisition assets is included in sales and marketing expenses.

The following table provides a reconciliation of contract acquisition assets:

		Years ended December 31,
	2023	**2022**
	$	**$**
Balance, beginning of the year	982,828	566,985
Additions	820,379	652,784
Amortization	(400,760)	(236,941)
Balance, end of year	**1,402,447**	**982,828**

11. Leases

Leases as lessee

The Company leases office space under non-cancellable operating lease agreements. As at December 31, 2023, the expected remaining lease terms are between two and three years. During the year ended December 31, 2023, the Company amended its office lease, which reduced the lease term resulting in a reduction of its lease liabilities.

Lease right-of-use assets

During the year ended December 31, 2023 the Company recognized depreciation expense of $466,967 on lease right-of-use assets (year ended December 31, 2022 - $459,561) in general and administrative expenses.

Lease liabilities

The following table provides a reconciliation of lease liabilities:

	Years ended December 31, 2023	2022
	$	$
Balance, beginning of year	**1,956,108**	**875,265**
Lease modification	(504,982)	1,711,077
Lease payments	(531,705)	(521,952)
Interest expense	45,106	63,489
Foreign exchange loss (gain)	67,092	(171,771)
Balance, end of year	**1,031,619**	**1,956,108**

Leases as lessor

On August 1, 2023, the Company sub-leased office space that has been presented as a right-of-use asset, for the remainder of the head-lease term and has classified the arrangement as a finance lease. The Company has no other leases as a lessor.

During the year ended December 31, 2023, the Company recognized a loss of $116,897 on derecognition of the underlying assets of the sublease.

During the year ended December 31, 2023 the Company recognized net sublease expense of $45,106 in finance income.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting period.

	December 31, 2023	December 31, 2022
	$	$
Less than one year	132,339	—
One to two years	22,056	—
Total undiscounted lease receivable	154,395	—
Unrecognized finance expense	28,773	—
Deposits	(17,880)	—
Net investment in the lease	**165,288**	**—**

12. Accounts payable and accrued liabilities

	December 31, 2023	December 31, 2022
	$	$
Trade payables	457,161	405,233
Accrued liabilities	2,149,605	2,975,664
Employee compensation and benefits	659,057	853,930
Sales taxes provision	2,028,322	692,522
	5,294,145	**4,927,349**

13. Related party transactions

Related parties include key management personnel, their close family members and entities under their control or joint control. Key management personnel are those having authority and responsibility for the planning directing and controlling the activities of the entity, directly or indirectly. The Company defines key management personnel as the Company's C-level executives and Board of Directors.

Key management personnel compensation was as follows:

	Years ended December 31,	
	2023	2022
	$	$
Salaries and benefits	1,883,123	2,776,594
Stock-based compensation	804,711	576,956
	2,687,834	**3,353,550**

Amounts due to related parties included in accounts payable and accrued liabilities as at December 31, 2023 were $1,049,229 (December 31, 2022 - $476,793) and are related to cash-settled equity incentive arrangements for the Company's C-level executives and Board of Directors. Refer to Note 16 for more details.

14. Credit facility

The Company has a loan agreement with a Canadian chartered bank for a revolving demand facility (the "Facility") that allows the Company to borrow up to CAD $38,000,000.

The Company can draw on the Facility by way of either a U.S. dollar base rate or Canadian dollar prime loan advance. The Facility bears interest at either the U.S. base rate or Canadian prime rate plus applicable margins. The Facility will mature on January 13, 2025. As at December 31, 2023, no amounts were outstanding.

15. Share capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares, with no par value and Multiple Voting Shares, with no par value (together, “common shares”) and an unlimited number of preferred shares with no par value, issuable in series.

Normal Course Issuer Bid

On November 7, 2023, the Company’s Board of Directors approved a normal course issuer bid ("NCIB") to purchase for cancellation a maximum of 2,444,538 subordinate voting shares in the capital of the Company (“Subordinate Voting Shares”), representing approximately 10% of the public float of the Subordinate Voting Shares (as defined in the rules and policies of the TSX), over the 12-month period commencing November 10, 2023 and ending no later than November 8, 2024, in accordance with the requirements of the TSX and applicable securities laws.

In connection with the NCIB, the Company entered into an automatic securities purchase plan ("ASPP") with a securities broker in order to allow for the purchase of Subordinate Voting Shares under the NCIB. Under the ASPP, the broker is authorized to repurchase Subordinate Voting Shares, without consultation with the Company, subject to pre-defined share price and other limitations imposed by the Company and subject to the rules and policies of the TSX and applicable securities laws, such as daily purchase restrictions.

From the launch of the NCIB on November 10, 2023 to December 31, 2023, the Company repurchased for cancellation 393,336 Subordinate Voting Shares at an average price of $2.28 per Subordinate Voting Share for total cash consideration of $896,515. An amount of $1,514,045 corresponding to the excess of carry value of the shares repurchased over the purchase price has been recorded within share capital. The Company incurred transaction costs of $3,643 in connection with the NCIB which were recorded as a reduction of share capital.

16. Stock-based compensation

In 2016, the Company established a stock option plan (the “Legacy Option Plan”) for directors, officers, employees, and consultants of the Company. In 2021, the Legacy Option Plan was amended such that no further awards can be made under this plan.

In 2021, the Company adopted an omnibus incentive plan (the “Omnibus Incentive Plan”) which allows the Board of Directors to grant long-term stock-based awards, including stock options, Restricted Share Units (“RSUs”), and Performance Share Units (“PSUs”) to eligible participants. The Company also adopted a Directors’ Deferred Share Units Plan (the “DSU Plan”), which allows the Board of Directors to grant Deferred Share Units (“DSUs”) to its members.

The aggregate number of common shares that may be issued pursuant to the grants made under the Legacy Option Plan and Omnibus Incentive Plan, shall be equal to 10% of the aggregate number of issued and outstanding common shares, from time to time.

A summary of the Company's stock-based compensation expense by award type is presented below:

	Years ended December 31, 2023 $	Years ended December 31, 2022 $
Stock options	215,027	1,419,796
Share awards, equity-settled	5,042,398	955,837
Share awards, cash-settled	493,640	410,529
	5,751,065	**2,786,162**

<u>Stock options</u>

All stock options have an exercise price determined and approved by the Board of Directors at the time of grant, which cannot be less than the market price of a Subordinate Voting Share on the date of grant. Each option entitles the holder to purchase one Subordinate Voting Share. Stock options typically have a maximum term of up to ten years and generally vest over four years.

A summary of the Company's stock option activity is presented below:

	Years ended December 31, 2023			Years ended December 31, 2022		
	Number of options		Weighted average exercise price (CAD)	Number of options		Weighted average exercise price (CAD)
Outstanding, beginning of period	3,314,110	$	4.51	6,390,524	$	3.59
Granted	—	$	—	445,303	$	3.53
Exercised	(1,011,451)	$	0.31	(2,411,941)	$	0.15
Forfeited	(646,294)	$	7.79	(1,109,776)	$	8.31
Outstanding, end of year	**1,656,365**	**$**	**5.80**	**3,314,110**	**$**	**4.51**
Exercisable, end of year	**1,276,732**	**$**	**5.11**	**2,169,019**	**$**	**2.95**

A summary of the Company's stock options outstanding is presented below:

	December 31, 2023		December 31, 2022	
Exercise price range (CAD)	**Number of options**	**Weighted average remaining contractual life (years)**	**Number of options**	**Weighted average remaining contractual life (years)**
$0.05 - $0.51	279,000	2.5	859,380	2.9
$0.52 - $2.81	363,949	6.7	927,871	7.2
$2.82 - $3.90	326,188	6.4	486,936	7.5
$3.91 - $11.70	174,118	7.7	244,175	8.7
$11.71 - $15.76	513,110	7.3	795,748	8.3
	1,656,365	**6.2**	**3,314,110**	**6.5**

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years ended December 31,	
	2023	**2022**
Expected volatility	— %	64 %
Risk-free interest rate	— %	2.4 %
Expected option life (years)	—	6.1
Expected dividend yield	— %	— %

Restricted share units

RSUs are a share award which entitle the holder to receive, upon vesting, Subordinate Voting Shares, cash, or a combination thereof, at the discretion of the Board of Directors. RSUs are accounted for at fair value, using the prevailing Thinkific Subordinate Voting Share price as if the units were vested and issued on the grant date. Stock-based compensation expense is determined based on the estimated fair value on the date of grant, and recognized over the service period. An estimate of forfeitures is applied in determining stock-based compensation expense at the grant date and subsequent reporting dates. RSUs have a maximum term of up to ten years and generally vest between one and three years.

Performance share units

PSUs are a share award which entitle the holder to receive, upon vesting, Subordinate Voting Shares, cash, or a combination thereof, at the discretion of the Board of Directors. PSUs are accounted for at fair value, using the prevailing Thinkific Subordinate Voting Share price as if the units were vested and issued on the grant date. Stock-based compensation expense is determined based on the estimated fair value on the date of grant and recognized over the service period. An estimate of forfeitures and probability of meeting related performance conditions is applied in determining stock-based compensation expense at the grant date and at subsequent reporting dates. PSUs have a maximum term of up to ten years and vest upon attainment of performance conditions as determined by the Board of Directors.

Deferred share units

DSUs are share awards for the Company's Board of Directors which entitle the holder to receive, upon redemption, a cash payment equal to the prevailing Thinkific Subordinate Voting Share price on the date of settlement. Each DSU vests on the date of the grant, however, the redemption of DSUs occurs when the holder ceases to be a director of the Company. DSUs are accounted for at fair value. Stock-based compensation expense is determined based on the estimated fair value of the DSUs on the date of grant, and recognized over the service period.

A summary of the Company's RSU, PSU and DSU activity for year ended December 31, 2023 is presented below:

	RSU			PSU			DSU		
	Number of awards		Weighted average fair value (CAD)	Number of awards		Weighted average fair value (CAD)	Number of awards		Weighted average fair value (CAD)
Outstanding, beginning of year	1,533,315	$	2.47	71,500	$	2.17	237,060	$	2.54
Granted	3,219,644	$	2.49	484,111	$	2.30	175,553	$	2.34
Released [(1)]	(1,866,677)	$	2.44	(24,890)	$	2.17	—	$	—
Forfeited	(627,160)	$	2.49	(148,832)	$	2.24	—	$	—
Outstanding, end of year	**2,259,122**	**$**	**2.51**	**381,889**	**$**	**2.31**	**412,613**	**$**	**2.46**

(1) A portion of these RSUs were net-settled such that the Company withheld shares with a value equivalent to the employees' obligation for the applicable income and other employment taxes. The Company remitted the cash tax on the stock-based compensation to the appropriate taxing authorities. During the year ended December 31, 2023, the Company withheld 727,110 subordinate voting shares, which was based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax obligations to taxing authorities was $1,286,394. Prior to 2023, the Company had not net-settled vesting RSUs.

A summary of the Company's RSU, PSU and DSU activity for the year ended December 31, 2022 is presented below:

	RSU			PSU			DSU		
	Number of awards		Weighted average fair value (CAD)	Number of awards		Weighted average fair value (CAD)	Number of awards		Weighted average fair value (CAD)
Outstanding, beginning of period	6,029	$	14.21	—	$	—	23,836	$	12.74
Granted	1,876,792	$	2.50	71,500	$	2.17	255,477	$	1.86
Released	(4,256)	$	14.21	—	$	—	(42,253)	$	4.16
Forfeited	(345,250)	$	2.65	—	$	—	—	$	—
Outstanding, end of year	**1,533,315**	**$**	**2.47**	**71,500**	**$**	**2.17**	**237,060**	**$**	**2.54**

17. Loss per share

The Company has three categories of potentially dilutive securities: stock options, RSUs and PSUs. The Company was in a net loss position for the periods presented and these securities have been excluded from the diluted loss per share calculation as their effect would be anti-dilutive. As a result, the basic and diluted weighted average number of shares outstanding and the basic and diluted loss per share are the same.

18. Income taxes

The income tax amounts recognized in the consolidated statements of loss and comprehensive loss are as follows:

		Years ended December 31,
	2023 $	2022 $
Deferred tax (recovery) expense		
Origination and reversal of temporary differences	(872,228)	(8,295,042)
Changes in unrecognized losses and deductible temporary differences	872,228	8,295,042
	—	—

A reconciliation of the income tax expense to the expected amount using the Company's Canadian tax rate is as follows:

		Years ended December 31,
	2023 $	2022 $
Income before income taxes	(9,779,590)	(36,421,637)
Canadian tax rate	27 %	27 %
Expected Canadian income tax expense (recovery)	(2,640,489)	(9,833,842)
Increase (reduction) in income taxes resulting from:		
Change in unbenefitted deductible temporary differences	896,673	8,881,233
Permanent differences of stock-based compensation	1,646,016	709,231
Benefit of ITCs generated	—	(3,577)
Other permanent differences	111,784	120,091
True-up	(13,984)	126,864
	—	—

The following tables present tax effects of temporary differences and carry-forwards, as well as movements in the deferred tax balances:

	December 31, 2022 $	Recognized in profit or loss $	December 31, 2023 $
Deferred tax assets (liabilities)			
Right-of-use assets	(537,598)	273,631	(263,967)
Lease liabilities	528,149	(249,612)	278,537
Contract assets	(265,363)	(113,297)	(378,660)
Property and equipment	(170,542)	103,964	(66,578)
Non operating loss carryforward	330,619	35,333	365,952
Other	114,735	(50,019)	64,716
	—	—	—

	December 31, 2021 $	Recognized in profit or loss $	December 31, 2022 $
Deferred tax assets (liabilities)			
Right-of-use assets	(199,689)	(337,909)	(537,598)
Lease liabilities	236,321	291,828	528,149
Contract assets	(153,086)	(112,277)	(265,363)
Property and equipment	(57,843)	(112,699)	(170,542)
Non operating loss carryforward	232,219	98,400	330,619
Other	(57,922)	172,657	114,735
	—	—	—

The amount of deductible temporary differences and unused tax losses and Scientific Research and Experimental Development ("SR&ED") expenditures for which no deferred income tax assets have been recognized are as follows:

	Years ended December 31, 2023 $	2022 $
Net operating loss carryforward	62,935,499	58,041,394
Share issuance costs	4,571,186	6,528,480
Undeducted SR&ED expenditures	742,904	742,904
Non-refundable ITCs	3,577	3,577
Other	281,665	523,257
	68,534,831	65,839,612

The Company's non-capital loss carry forwards and non-refundable SR&ED investment tax credits will expire in twenty years from origination and the Company's undeducted SR&ED pool, financing fees, and other temporary deductible differences have an unlimited carry forward period.

19. Financial risk management and financial instruments

Capital and risk management

The general objectives of the Company's capital management strategy reside with the preservation of its capacity to continue operating, in providing benefits to its stakeholders, and in providing a return on investment to its shareholders by selling its services at a price commensurate with the operating risk it assumes.

The Company determines 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. The Company is not subject to any externally imposed capital requirements.

The Company is exposed to risks of varying degrees of significance which could affect its ability to carry out it's strategic objectives and is exposed to risk arising from financial instruments, the nature of which and corresponding mitigations are described below.

Credit risk

The Company's credit risk is primarily attributable to its cash and cash equivalents, trade and other receivables and derivative financial instruments.

Credit risk with respect to cash and cash equivalents is managed by holding cash and cash equivalents with high quality financial institutions.

There is no particular concentration of credit risk related to the Company's trade and other receivables, and no customer accounts comprise more than 5% of the trade and other receivables balance. The Company's trade and other receivables balance is managed and analyzed on an ongoing basis to ensure that an appropriate expected credit loss is established and maintained.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations. The Company manages this risk by limiting counterparties to highly rated financial institutions and monitoring their credit worthiness.

Liquidity risk

Liquidity risk is the risk the Company is not able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities as they become due. The Company manages this risk by monitoring cash flow and performing budget-to-actual analysis on an ongoing basis. At December 31, 2023 the Company had cash and cash equivalents of $86,610,721 and an undrawn credit facility for up to $38,000,000 CAD. Given the Company's available liquid resources as compared to the undiscounted contractual maturities of its financial liabilities, management considers the Company's liquidity risk to be low.

The following are the remaining undiscounted contractual maturities of financial liabilities as at December 31, 2023 and 2022:

As at December 31, 2023	**1 year $**	**2 - 3 years $**	**4 - 5 years $**	**Total $**	**Carrying value $**
Accounts payable and accrued liabilities	5,294,145	—	—	5,294,145	5,294,145
Lease liabilities (note 11)	562,008	469,494	—	1,031,502	1,031,619
	5,856,153	**469,494**	**—**	**6,325,647**	**6,325,764**

As at December 31, 2022	**1 year $**	**2 - 3 years $**	**4 - 5 years $**	**Total $**	**Carrying value $**
Accounts payable and accrued liabilities	4,927,349	—	—	4,927,349	4,927,349
Lease liabilities (note 11)	508,183	889,103	737,961	2,135,247	1,956,108
	5,435,532	**889,103**	**737,961**	**7,062,596**	**6,883,457**

As at December 31, 2023 the Company had software commitments of $2,178,461 outstanding (December 31, 2022 - 3,101,425).

Foreign exchange risk

The Company is exposed to foreign exchange risk attributable to Canadian dollar denominated cash and cash equivalents, accounts payable, and lease liabilities. The majority of trade and other receivables are denominated in U.S. dollars. This risk is managed by holding Canadian dollar denominated cash sufficient to cover the Company's Canadian dollar expenditures, thereby creating a natural hedge against realized foreign exchange risk.

The net carrying value of these Canadian dollar denominated balances were as follows:

	December 31, 2023 $	December 31, 2022 $
Cash and cash equivalents	22,947,559	46,752,324
Trade and other receivables	885,114	420,167
Accounts payable and accrued liabilities	(2,436,851)	(1,936,735)
	21,395,822	**45,235,756**

Based on working capital held at December 31, 2023, a 10% weakening in the Canadian dollar against the U.S. dollar, with all other variables held constant, would result in an increase in foreign exchange loss of approximately $2,139,243 recorded against net loss (2022 - $4,524,934). The sensitivity associated with a 10% strengthening of the Canadian dollar against the U.S. dollar would be equal and opposite.

The Company's functional currency is the U.S dollar, and as a result, volatility in the Canadian dollar relative to the U.S. dollar could impact the Company's net loss as a significant amount of operating expenses are denominated in Canadian dollars. The Company has entered into foreign exchange forward contracts and applied hedge accounting to mitigate this foreign currency risk.

The Company's policy is to hedge 80 percent of its estimated foreign currency exposure in respect of forecast payroll expenditures over the following 6-12 months at any point in time.

The Company has designated the spot element of forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. The Company's policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Company determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of their respective cash flows.

The Company assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in the hedged item based on critical terms match. Ineffectiveness would arise if there are changes in the amount and currency of the hedged transactions.

As at December 31, 2023, the aggregate notional amount of foreign exchange forward contracts was $24,488,989 CAD (December 31, 2022 – nil), all of which was designated as cash flow hedges. The average US:CAD contract rate for six months is 1.3605 and for 6-12 months is 1.3605. The maturity dates of these instruments range from January 2024 to October 2024. As at December 31, 2023, the net unrealized gain on forward contracts designated as cash flow hedges was $569,803 (December 31, 2022 – nil). As at December 31, 2023, the Company estimates that 100% of net unrealized gains on these forward contracts will be reclassified into net loss within the next twelve months.

Hedging Reserve

The hedging reserve is contained in other accumulated comprehensive income on the balance sheet, it comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the consolidated statements of loss.

	Years ended December 31,	
	2023	**2022**
	$	**$**
Balance, beginning of year	—	—
Unrealized gains (losses) that may subsequently be reclassified to consolidated statements of loss	569,803	—
Balance, end of year	569,803	—

Interest rate risk

The Company is not exposed to material interest rate risk as the Company's trade and other receivables, accounts payable and accrued liabilities, and lease liabilities do not bear interest, and the Company has not drawn on the credit facility.

Fair value

The Company measures the fair value of its financial assets and financial liabilities using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value.

The different levels of the fair value hierarchy are defined below:

Level 1 Quoted prices (unadjusted) 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; and

Level 3 Unobservable inputs for the asset or liability.

The following tables summarizes the classification and carrying value of the Company's financial instruments:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	Fair value through other comprehensive income	December 31, 2023
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	86,610,721	—	—	—	86,610,721
Trade and other receivables	4,097,321	—	—	—	4,097,321
Foreign exchange forward contracts	—	—	—	569,803	569,803
Financial liabilities					
Accounts payable and accrued liabilities	—	4,244,916	1,049,229	—	5,294,145
Lease liabilities	—	1,031,619	—	—	1,031,619

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	Fair value through other comprehensive income	December 31, 2022
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	93,846,091	—	—	—	93,846,091
Trade and other receivables	2,712,671	—	—	—	2,712,671
Financial liabilities					
Accounts payable and accrued liabilities	—	4,573,356	353,993	—	4,927,349
Lease liabilities	—	1,956,108	—	—	1,956,108

Accounts payable and accrued liabilities that are classified and measured as fair value through profit or loss are comprised of cash-settled equity awards and are measured with level 1 inputs. Refer to Note 16 for further details.

The fair value of derivative financial instruments are measured using Level 2 inputs, based on forward foreign exchange rates.

20. Segmented information

Operating segments

The Company operates primarily in one principal business, that being the development, marketing and support management of the Company's cloud-based platform.

Entity-wide disclosures

Geographic revenue information is based on the location of the customer invoiced.

	Years ended December 31,			
	2023		**2022**	
	$	**%**	**$**	**%**
United States	30,600,392	52 %	26,273,378	51 %
Rest of world	21,254,453	36 %	19,074,167	37 %
Canada	7,199,228	12 %	6,128,465	12 %
	59,054,073	**100 %**	**51,476,010**	**100 %**

Long-lived assets, which include lease right-of-use assets, property and equipment, intangible assets, and contract acquisition assets, are all located in Canada.