



D2L INC.

Management's Discussion and Analysis

For the years ended January 31, 2023 and 2022

Dated: April 4, 2023

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 January 31, 2023 and 2022 and the years ended January 31, 2023 ("Fiscal 2023") and 2022 ("Fiscal 2022").

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.

The information in this MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and the related notes thereto for the years ended January 31, 2023 and 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Additional information relating to D2L, including the Company's Annual Information Form for the year ended January 31, 2023 ("AIF"), can be found on SEDAR at www.sedar.com. All amounts are in thousands of United States dollars except where otherwise indicated and per share amounts. This MD&A is dated as of April 4, 2023.

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; trends in research and development expenses and general and administrative expenses, each as a percentage of revenue; planned increases in sales and marketing and research and development activities; the timing and pace for achieving profitability; and expectations regarding the growth of the Company's customer base, revenue and revenue generation potential.

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; the Company's ability to retain key personnel; the factors and assumptions discussed under "*Financial Outlook*" below and that the list of factors referenced in the following paragraph, collectively, 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 at "*Summary of Factors Affecting Our Performance*" and "*Risk Factors*", or in 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 changes in the fair value of redeemable convertible preferred shares, stock-based compensation, foreign exchange gains and losses, transaction-related expenses, non-recurring activities, 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.

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 January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Total revenue for the period	42,684	41,406	168,396	151,880
Negative impact of foreign exchange rate changes over the prior period	1,277	—	4,249	—
Constant Currency Revenue	43,961	41,406	172,645	151,880

Adjusted EBITDA and Adjusted EBITDA Margin

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

(in thousands of U.S. dollars, except for percentages)	Three months ended January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Loss for the period	(6,186)	(3,860)	(18,377)	(97,653)
Loss on redeemable convertible preferred shares	—	—	—	22,028
Stock-based compensation	1,942	1,662	7,738	68,822
Foreign exchange loss (gain)	(1,041)	502	(1,839)	950
Transaction-related costs ⁽¹⁾	—	737	—	2,529
Non-recurring expenses ⁽²⁾	978	—	1,042	—
Impairment loss on intangible assets	4,474	—	4,474	—
Net interest expense (income)	(729)	33	(620)	125
Income tax expense	9	(544)	434	(164)
Depreciation and amortization	978	1,037	4,245	3,499
Adjusted EBITDA	425	(433)	(2,904)	136
Adjusted EBITDA Margin	1.0%	-1.0%	-1.7%	0.1%

Note:

- (1) These costs include professional, legal, consulting and accounting fees incurred in connection with the Company's initial public offering ("IPO"), which closed on November 3, 2021, and related other activities, and are not considered indicative of continuing operations. These costs did not meet the criteria for capitalization and thus were expensed in the Company's consolidated statements of comprehensive loss. Share issuance costs that met the criteria for capitalization are described in Note 13(b) of the Company's audited annual consolidated financial statements for the year ended January 31, 2022.
- (2) These costs relate to non-recurring activities, such as facility relocations, workforce restructuring and related one-time charges that are not considered indicative of continuing operations. The Company's head office relocation is expected to be completed in early 2023, which is described in Note 19(f) of the Company's audited annual consolidated financial statements. These costs did not meet the criteria for capitalization and thus were expensed in the Company's audited annual consolidated financial statements of comprehensive loss.

Free Cash Flow and Free Cash Flow Margin

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

(in thousands of U.S. dollars, except for percentages)	Three months ended January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Cash flow from (used in) operating activities	(5,279)	(3,965)	3,779	112
Purchase of property and equipment	(1,767)	(96)	(3,672)	(796)
Free Cash Flow	(7,046)	(4,061)	107	(684)
Free Cash Flow Margin	-16.5%	-9.8%	0.1%	-0.5%

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

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 January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Gross profit for the period	27,326	26,516	107,770	87,947
Stock based compensation	108	28	369	8,199
Adjusted Gross Profit	27,434	26,544	108,139	96,146
Adjusted Gross Margin	64.3%	64.1%	64.2%	63.3%

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 an increasing Annual Recurring Revenue indicates the continued strength in the expansion of our business, and 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 January 31		
	2023	2022	Change
	\$	\$	%
Annual Recurring Revenue	168.0	154.5	8.7%
Constant Currency Annual Recurring Revenue	171.4	154.5	10.9%

Net Revenue Retention Rate

We define Net Revenue Retention Rate for a fiscal year by considering all customers at the beginning of a fiscal year, and dividing our annual subscription revenue attributable to this group of customers at the end of the fiscal year, by the annual subscription revenue attributable to this group of customers in the prior fiscal year. By implication, this ratio, expressed as a percentage, excludes any sales from new customers acquired during the fiscal year, but does include incremental sales from the existing base of customers during the fiscal year being measured. We believe that measuring the ability to retain and expand revenue generated from the existing customer base is a key indicator of the long-term value that we provide to customers. Net Revenue Retention Rate for the fiscal year ended January 31, 2023 was 102% (107% for the fiscal year ended January 31, 2022). See the “Review of Operations - Revenue” section of the MD&A for an explanation of the variance year-over-year.

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 technology ecosystem 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 predictive analytics package, and Creator+, the next evolution of our Engagement+ package, which engages learners through add-on solutions such as adaptive video, widgets and interactive tools. 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 Fiscal 2023, 87% of our revenues were recurring, on a subscription and support basis. During Fiscal 2023, we generated revenues of \$168.4 million, up \$16.5 million or 10.9%, from Fiscal 2022.

We sell our platform primarily through our direct sales force in North America, Europe, and Australia, as well as through indirect channel partners in other countries around the world. As of January 31, 2023, our customer list was comprised of over 1,240 customers (up from over 1,150 as at January 31, 2022) – representing colleges, universities, K-12 school districts and companies in more than 40 countries. We define a "customer" as an entity with an active contract for our services. In the case where there is a single contract that applies to entities with multiple subsidiaries, divisions, accounts, universities or schools, only the entity that has contracted for our services is counted as a customer. For example, a higher educational consortium contracted on behalf of its member institutions, is counted as a single customer even though the consortium encompasses multiple individual institutions. Our platform is used worldwide by more than 16 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.

Filing of Prospectus and Initial Public Offering

On October 28, 2021, the Company filed a prospectus (the "**Offering**") with the security regulatory authorities in each of the provinces and territories of Canada in connection with an initial public offering ("**IPO**") of subordinate voting shares ("**Subordinate Voting Shares**") issued from treasury of the Company and a secondary offering (the "**Secondary Offering**") of Subordinate Voting Shares by the Desire2Learn Employee Stock Trust ("**Employee Stock Trust**"), subject to the terms and conditions of an underwriting agreement entered into on October 27, 2021.

On November 3, 2021, the Offering was closed. The Offering consisted of an IPO of 5,489,757 Subordinate Voting Shares issued from treasury of the Company and a Secondary Offering of 3,335,243 Subordinate Voting Shares by the Employee Stock Trust for aggregate gross proceeds of \$120,676,480. Gross proceeds of the IPO and Secondary Offering were \$75,069,071 to the Company and \$45,607,409 to the Employee Stock Trust, respectively. The Company's Subordinate Voting Shares began trading on the Toronto Stock Exchange under the symbol "DTOL" on the closing date.

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 existing customers represent 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 expand into new geographic regions, and we will face risks 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 do not have any 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 a smaller proportion of our expenses in U.S. dollars. Our head office and a significant 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 adversely impacted by a decrease in the value of the U.S. dollar relative to the Canadian dollar, British pound sterling, or Australian dollar. See "Risk Factors" 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 e-Learning solutions, 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 e-Learning solutions, as well as complementary services such as content creation and learning consultancy, and occasionally, termination fees due when contracts are cancelled for convenience. These professional services are either delivered at or around the inception of the contract with the customer when the subscription and support agreement commences, or as follow-on services during the term of the subscription and support agreement. 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 production cloud and web hosting fees, employee wages and benefits expenses, including stock-based compensation, and an allocated proportion of overhead costs.

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 e-Learning solutions 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.

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 investment in our sales and marketing efforts 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.

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. Over the medium term, we will continue to invest in research and development costs, but expect that these expenses will generally decrease as a percentage of total revenues as total revenues increase.

Prior to our IPO, we were a privately held company, and our research and development expenses were reduced by Canadian federal Scientific Research and Experimental Development Program tax incentives (“**SR&ED**”). Upon our transition to a public company, we are no longer able to reduce our research and development expenses through refundable SR&ED tax credits, causing our research and development expenses to increase relative to our time as a privately held company. However, we continue to remain eligible for non-refundable SR&ED credits under this program, which may be used to reduce income taxes payable in future years.

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.

During Fiscal 2022, we incurred expenses as part of our transition to a publicly traded company. Subsequent to our IPO, we incurred additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a Canadian securities exchange and costs related to compliance and reporting obligations pursuant to rules of the Canadian securities commissions. However, we expect that these expenses will generally decrease as a percentage of total revenues over the medium-term.

Interest and other income (expense)

Interest and other income (expense) consists primarily of net interest income or expenses, transaction gains or losses on foreign currency, and changes in the fair value of our previously outstanding redeemable convertible preferred shares.

The fair value gains and losses on our redeemable convertible preferred shares had a material impact on our financial statements for the year ended January 31, 2022. Immediately prior to the closing of our IPO, the redeemable convertible preferred shares were converted to Subordinate Voting Shares, subject to certain adjustments. Accordingly, changes in the fair value of our redeemable convertible preferred shares no longer exist and will not impact our results going forward.

Other comprehensive income (loss)

Other comprehensive income (loss) consists of impairment losses on non-financial assets, as well as 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 for the periods indicated:

(in thousands of U.S. dollars, except for percentages)	Three months ended January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Revenue	42,684	41,406	168,396	151,880
Cost of revenue	15,358	14,890	60,626	63,933
Gross profit	27,326	26,516	107,770	87,947
Operating expenses				
Sales and marketing	14,128	12,926	55,010	65,405
Research and development	10,562	10,878	43,068	46,599
General and administrative	6,111	6,581	25,620	50,657
Impairment loss on intangible assets	4,474	—	4,474	—
Total operating expenses	35,275	30,385	128,172	162,661
Loss from operations	(7,949)	(3,869)	(20,402)	(74,714)
Interest and other income (expenses), excluding loss on redeemable convertible preferred shares	1,772	(535)	2,459	(1,075)
Loss on redeemable convertible preferred shares	—	—	—	(22,028)
Loss before income taxes	(6,177)	(4,404)	(17,943)	(97,817)
Income tax expense (recovery)	9	(544)	434	(164)
Loss for the period	(6,186)	(3,860)	(18,377)	(97,653)
Other comprehensive income (loss)	(16)	(249)	(1,671)	860
Comprehensive loss	(6,202)	(4,109)	(20,048)	(96,793)
Loss per share - basic	(0.12)	(0.07)	(0.35)	(2.88)
Loss per share - diluted	(0.12)	(0.07)	(0.35)	(2.88)

Impact of Employee Trust Stock-Based Compensation

As outlined in note 15 of the audited annual consolidated financial statements for the years ended January 31, 2023 and 2022, the Company recognized a non-recurring, stock-based compensation expense of \$65.8 million in the third quarter of the prior year (“**Employee Trust Stock-Based Compensation Expense**”). This expense had a significant impact on the Company’s loss for the year ended January 31, 2022.

The following chart provides details of the Employee Trust Stock-Based Compensation Expense recognized by the Company by major expense function for the three and twelve months ended January 31, 2022:

(in thousands of U.S. dollars)	3 months ended January 31, 2022	Fiscal year ended January 31, 2022
Cost of subscription and support	—	494
Cost of professional services and other	—	7,581
Sales and marketing	—	19,591
Research and development	—	7,709
General and administrative	—	30,447
Total Employee Trust Stock-Based Compensation Expense	—	65,822

The total stock-based compensation expense recognized by the Company for the three and twelve months ended January 31, 2022, inclusive of the Employee Trust Stock-Based Compensation Expense, was \$1.7 million and \$68.8 million, respectively.

Review of Operations

Revenue

(in thousands of U.S. dollars, except percentages)	Three months ended January 31			Fiscal year ended January 31		
	2023	2022	Change	2023	2022	Change
	\$	\$	%	\$	\$	%
Revenue						
Subscription and support revenue	37,790	36,191	4.4%	145,939	134,688	8.4%
Professional services and other revenue	4,894	5,215	-6.2%	22,457	17,192	30.6%
Total revenue	42,684	41,406	3.1%	168,396	151,880	10.9%
Percentage of total revenue						
Subscription and support revenue	88.5%	87.4%		86.7%	88.7%	
Professional services and other revenue	11.5%	12.6%		13.3%	11.3%	
Total revenue	100.0%	100.0%		100.0%	100.0%	

For the three months ended January 31, 2023, subscription and support revenue was \$37.8 million, compared to \$36.2 million in the same period of the prior year, representing an increase of \$1.6 million or 4.4%. For Fiscal 2023, subscription and support revenues totalled \$145.9 million, increasing by \$11.2 million or 8.4% from \$134.7 million in Fiscal 2022. The increase in subscription and support revenue over both periods was mainly the result of revenue from new customers, paired with revenue retention and expansion from existing customers, as Annual Recurring Revenue (see “*Non-IFRS and Other Financial Measures – Key Performance Indicators*”) for Fiscal 2023 reached \$168.0 million (up \$13.5 million or 8.7% from \$154.5 million in Fiscal 2022).

Professional services and other revenue were fairly consistent during both three-month periods ended January 31, 2023 and 2022 at \$4.9 million and \$5.2 million, respectively. Professional services and other revenues were \$22.5 million in Fiscal 2023, increasing by \$5.3 million or 30.6% from \$17.2 million in Fiscal 2022. The year-over-year increase in professional services and other revenue was driven by several significant delivered professional services engagements during Fiscal 2023, including new customer implementations and content development work for existing customers.

Constant Currency Revenue (a non-IFRS financial measure, see “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”) for the three-month periods ended January 31, 2023 and 2022 were \$44.0 million and \$41.4 million, respectively, representing a period-over-period increase of \$2.6 million or 6.2%. The increase was driven primarily by the growth in subscription and support revenue when compared to the prior period, based on the factors discussed above. Constant Currency Revenue was \$172.6 million for Fiscal 2023, compared to \$151.9 million in the Fiscal 2022, representing growth of \$20.7 million or 13.7%. Similarly, the increase was driven primarily by the growth in subscription and support revenue, as demonstrated by the 10.9% year-over-year increase in Constant Currency Annual Recurring Revenue (see “*Non-IFRS and Other Financial Measures – Key Performance Indicators*”), and supplemented by new customer implementations and other professional services engagements during Fiscal 2023.

The Net Revenue Retention rate is representative of our ability to retain and expand revenue generated from our existing customer base (see “*Non-IFRS and Other Financial Measures – Key Performance Indicators*”). In Fiscal 2023, our Net Revenue Retention Rate was 102%, down from 107% in Fiscal 2022. The year-over-year reduction in our net revenue retention rate in Fiscal 2023 was the result of foreign exchange currency reductions which contributed to 40% of the decrease, and, relative to the prior year, lower enterprise expansions within our K-12 customer base.

Cost of revenue

(in thousands of U.S. dollars, except percentages)	Three months ended January 31			Fiscal year ended January 31		
	2023	2022	Change	2023	2022	Change
	\$	\$	%	\$	\$	%
Cost of revenue						
Cost of subscription and support	11,847	11,149	6.3%	46,271	43,963	5.2%
Cost of professional services and other	3,511	3,741	-6.1%	14,355	19,970	-28.1%
Total cost of revenue	15,358	14,890	3.1%	60,626	63,933	-5.2%
Percentage of total cost of revenue						
Cost of subscription and support	77.1%	74.9%		76.3%	68.8%	
Cost of professional services and other	22.9%	25.1%		23.7%	31.2%	
Total cost of revenue	100.0%	100.0%		100.0%	100.0%	

Cost of subscription and support revenue for the three months ended January 31, 2023 was \$11.8 million, representing an increase of \$0.7 million or 6.3% compared to \$11.1 million recognized in the same period of the prior year. During Fiscal 2023, cost of subscription and support revenue was \$46.3 million, an increase of \$2.3 million or 5.2% from \$44.0 million recognized in Fiscal 2022. The increases for both periods were primarily driven by increased cloud technology and support costs, which were partially offset by ongoing optimizations in our cost of delivery.

Cost of professional services and other revenue for the three months ended January 31, 2023 was \$3.5 million, which was fairly consistent with the \$3.7 million recognized in the same period of the prior year. For Fiscal 2023, cost of professional services and other revenue was \$14.4 million, down \$5.6 million or 28.1% from the \$20.0 million recognized in the same period of the prior year. The decrease was mainly driven by the Employee Trust Stock-Based Compensation Expense recognized of \$7.6 million in the prior year. Excluding this impact, cost of professional services and other revenue increased year-over year by \$2.0 million or 15.9% and was primarily the result of increased employee headcount and subcontractor fees to deliver professional services to both new and existing customers.

Gross profit

(in thousands of U.S. dollars, except percentages)	Three months ended January 31			Fiscal year ended January 31		
	2023	2022	Change	2023	2022	Change
	\$	\$	%	\$	\$	%
Gross profit						
Subscription and support	25,943	25,042	3.6%	99,668	90,725	9.9%
Professional services and other	1,383	1,474	-6.2%	8,102	(2,778)	391.6%
Total gross profit	27,326	26,516	3.1%	107,770	87,947	22.5%
Gross profit margin						
Subscription and support	68.7%	69.2%		68.3%	67.4%	
Professional services and other	28.3%	28.3%		36.1%	-16.2%	
Total gross profit margin	64.0%	64.0%		64.0%	57.9%	

Gross profit earned on subscription and support for the three months ended January 31, 2023 was \$25.9 million, representing an increase of \$0.9 million or 3.6% from the \$25.0 million earned in the same period of the prior year. For Fiscal 2023, gross profit earned on subscription and support was \$99.7 million compared to \$90.7 million in Fiscal 2022, representing growth of \$9.0 million or 9.9%. The increases in gross profit earned on subscription and support for both periods were primarily driven by growth in our subscription and support revenue outpacing related increases in cost of revenue on an absolute dollar basis.

As a percentage of revenue, gross profit margin for subscription and support for the three months ended January 31, 2023 was 68.7%, a slight decrease of 50 basis points from the 69.2% realized in the same period of the prior year. The decrease was the result of the period-over-period increase in cloud technology and support costs discussed previously slightly outpacing the growth in the related revenues. For Fiscal 2023, gross profit margin increased by 90 basis points to 68.3% from 67.4% in Fiscal 2022. The year-over-year increase was the result of growth in subscription and support revenues exceeding the growth in the related cost of revenue, which can primarily be attributed to our continued optimization of cloud delivery that led to realized efficiencies and lower relative hosting costs in Fiscal 2023. The increase is also reflective of the effects of easing COVID-19 restrictions and the return to more in-person learning when compared to Fiscal 2022, which meant our platform was used for both blended and online learning rather than a more fully online intensive learning experience.

For the three months ended January 31, 2023, gross profit earned on professional services and other was \$1.4 million, which was largely consistent with \$1.5 million earned in the same period of the prior year. During Fiscal 2023, gross profit earned on professional services and other was \$8.1 million, up \$10.9 million or 391.6% from the negative gross profit of \$2.8 million realized in Fiscal 2022. The increase was primarily attributable to the Employee Trust Stock-Based Compensation Expense recognized of \$7.6 million in Fiscal 2022. Excluding this impact, gross profit increased by \$3.3 million or 68.7% year-over-year, the result of growth in our professional services and other revenue outpacing the related increases in cost of revenue.

Gross profit margin for professional services and other for the three months ended January 31, 2023 remained consistent with the same period in the prior year at 28.3%. For Fiscal 2023, gross profit margin for professional services and other was 36.1%, increasing by 5,220 basis points from negative gross profit margin of 16.2% in the Fiscal 2022. The increase was primarily the result of the \$7.6 million Employee Trust Stock-Based Compensation Expense discussed above. Excluding this impact, gross profit margin for professional services increased by 810 basis points from 27.9% in Fiscal 2022, the result of growth in our professional services and other revenue outpacing the cost of revenue increase in the same periods.

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- and twelve-month periods ended January 31, 2023 were \$27.4 million and \$108.1 million, respectively, representing increases of \$0.9 million or 3.4% and \$12.0 million or 12.5%, respectively, from the same periods in the prior year. The increases in Adjusted Gross Profit for both periods were the result of greater subscription and support revenues from new and existing customers, combined with growth of professional services and other revenues driven by an increase in delivered professional services engagements, outpacing the increases in the related costs of revenue on an absolute dollar basis. Growth in the related costs of revenue, particularly cloud technology and support costs, were lower as continued optimization of cloud technology improves our cost of delivery.

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 January 31, 2023 was 64.3%, a slight increase of 20 basis points when compared to 64.1% in the same period of the prior year. Adjusted Gross Margin for Fiscal 2023 was 64.2%, representing an increase of 90 basis points when compared to Adjusted Gross Margin of 63.3% in Fiscal 2022. The improvements in the ratio over both periods were the result of increases in Adjusted Gross Profit as discussed previously, which was partially offset by an increase in total revenue when compared to the same periods in the prior year.

Operating expenses

(in thousands of U.S. dollars, except percentages)	Three months ended January 31			Fiscal year ended January 31		
	2023	2022	Change	2023	2022	Change
	\$	\$	%	\$	\$	%
Operating expenses						
Sales and marketing	14,128	12,926	9.3%	55,010	65,405	-15.9%
Research and development	10,562	10,878	-2.9%	43,068	46,599	-7.6%
General and administrative	6,111	6,581	-7.1%	25,620	50,657	-49.4%
Impairment loss on intangible assets	4,474	—	100.0%	4,474	—	100.0%
Total operating expenses	35,275	30,385	16.1%	128,172	162,661	-21.2%
Percentage of total revenue						
Sales and marketing	33.1%	31.2%		32.7%	43.1%	
Research and development	24.7%	26.3%		25.6%	30.7%	
General and administrative	14.3%	15.9%		15.2%	33.4%	
Impairment loss on intangible assets	10.5%	0.0%		2.7%	0.0%	
Total percentage of total revenue	82.6%	73.4%		76.2%	107.1%	

Sales and marketing expenses for the three months ended January 31, 2023 were \$14.1 million compared to \$12.9 million in the same period of the prior year, representing an increase of \$1.2 million or 9.3%. The increase was largely due to an increase in employee headcount and related expenses to support our growth strategy of attracting new customers and retaining and growing existing customers. Sales and marketing expenses for Fiscal 2023 were \$55.0 million compared to \$65.4 million in Fiscal 2022, representing a decrease of \$10.4 million. The decrease was primarily driven by the recognition of \$19.6 million in Employee Trust Stock-Based Compensation Expense in the comparative period. Excluding this impact, sales and marketing expenses in Fiscal 2022 were \$45.8 million, representing a year-over-year increase of \$9.2 million or 20.1%. This increase was similarly driven by increased employee headcount to support our growth strategy. The increase was also the result of the resumption of in-person marketing events, including D2L Fusion 2022, our annual customer conference, as well as higher travel expenses resulting from easing COVID-19 restrictions compared to the prior year.

For the three months ended January 31, 2023, research and development expenses were \$10.6 million, which was largely consistent with the \$10.9 million incurred in the same period of the prior year. During Fiscal 2023, research and development expenses were \$43.1 million, down \$3.5 million or 7.6% from \$46.6 million in the same period of the prior year. The year-over-year decrease was primarily attributable to \$7.7 million recognized in Employee Trust Stock-Based Compensation Expense. Excluding this impact, research and development expenses increased year-over-year by \$4.2 million or 10.7%, which was mainly the result of higher employee headcount and related salary expenses. The growth in headcount was required to expand our technology development team, enabling us to continue to enhance our existing product offerings and develop new products. The increase was also attributable to greater investments in market research when compared to prior periods.

During the three months ended January 31, 2023, general and administrative expenses were \$6.1 million, representing a slight period-over-period decrease of \$0.5 million or 7.1% when compared to the same period in the prior year, which was primarily the result of lesser variable compensation for executive employees when compared to the prior year. For Fiscal 2023, general and administrative expenses were \$25.6 million compared to \$50.7 million in the prior year. The decrease of \$25.0 million was primarily due to the recognition of \$30.4 million in Employee Trust Stock-Based Compensation Expense in Fiscal 2022. Excluding this impact, general and administrative expenses increased year-over-year by \$5.4 million or 26.8%. The increase was mainly attributable to increased salary related expenses from growth in our employee headcount to support general business expansion and compliance requirements. Higher insurance expenses due to our transition as a public company and increased recruitment expenses also contributed to the increase. The increase was partially offset by lower professional fees and other one-time costs incurred in prior periods in connection with our IPO that did not have a corresponding impact in the current periods.

Impairment loss on intangible assets for the three- and twelve-month periods ended January 31, 2023 was \$4.5 million, compared to no impairment loss recognized in each of the comparative prior periods. The year-over-year increase was the result of

impairment recognized on the course content and software assets acquired from Bayfield Design Inc. (“**Bayfield**”) in Fiscal 2022, as described in note 7 of the audited annual consolidated financial statements for Fiscal 2023.

Interest and other income (expense)

(in thousands of U.S. dollars, except percentages)	Three months ended January 31			Fiscal year ended January 31		
	2023	2022	Change	2023	2022	Change
	\$	\$	%	\$	\$	%
Interest and other income (expenses), excluding loss on redeemable convertible preferred shares	1,772	(535)	431.2%	2,459	(1,075)	328.7%
Loss on redeemable convertible preferred shares	—	—	0.0%	—	(22,028)	-100.0%
Total interest and other income (expenses)	1,772	(535)	431.2%	2,459	(23,103)	110.6%
Percentage of total revenue						
Interest and other income (expenses), excluding loss on redeemable convertible preferred shares	4.2%	-1.3%		1.5%	-0.7%	
Loss on redeemable convertible preferred shares	0.0%	0.0%		0.0%	-14.5%	
Total percentage of total revenue	4.2%	-1.3%		1.5%	-15.2%	

Total interest and other income for the three months ended January 31, 2023 was \$1.8 million compared to an expense of \$0.5 million in the comparative period, representing an increase of \$2.3 million or 431.2%. The increase was primarily caused by unrealized foreign exchange gains of \$1.0 million recognized in the current period resulting from the strengthening U.S. dollar in the current period relative to the prior period, as compared to unrealized foreign exchange losses of \$0.5 million recognized in the same period of the prior year. The increase was also attributable to increased interest income earned of \$0.9 million on cash held when compared to the prior period.

Total interest and other income for Fiscal 2023 was \$2.5 million, representing an increase of \$25.6 million or 110.6% compared to an expense of \$23.1 million in Fiscal 2022. The increase was mainly attributable to the fair value loss on the redeemable convertible preferred shares recognized in the comparative period of \$22.0 million, with no corresponding impact in Fiscal 2023. This increase was also the result of increased interest income and favourable foreign exchange gains, as noted above.

Loss for the period

The loss for the three months ended January 31, 2023 was \$6.2 million, compared to a loss of \$3.9 million in the same period of the prior year, representing an increase in the loss of \$2.3 million as a result of period-over-period changes discussed above. For Fiscal 2023, the loss was \$18.4 million, compared to a loss of \$97.7 million in Fiscal 2022, representing a decrease in the loss of \$79.3 million resulting from the year-over-year factors 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*”) for the three-month period ended January 31, 2023 was \$0.4 million, reflecting an increase of \$0.8 million from negative \$0.4 million in the equivalent period of the prior year. The increase was mainly the result of a period-over-period increase in total gross profit of \$0.8 million based on the factors discussed above. This increase was partially offset by an increase in total operating expenses, net of impairment losses, of \$0.4 million which was primarily driven by increased employee headcount across the organization based on the factors discussed previously. For Fiscal 2023, Adjusted EBITDA was negative \$2.9 million, decreasing by \$3.0 million when compared to \$0.1 million in Fiscal 2022. The decrease was mainly the result of a year-over-year increase in total operating expenses, net of the Employee Trust Stock-Based Compensation Expenses incurred in the prior year, of \$23.3 million as we continued to expand our employee headcount across the business. The increase

in total operating expenses was also attributable to increased sales and marketing spend to support our growth strategy, as well as higher research and development expenses as a result of the factors noted above. These costs were partially offset by a year-over-year increase in total gross profit of \$19.8 million based on the factors discussed previously. The majority of our operating expenses are denominated in foreign currencies, while the majority of our revenues are in U.S. dollars. A strengthening of the U.S. dollar may therefore result in decreased reported revenues and may offset by a greater decrease in reported operating expenses. Adjusted EBITDA was impacted by favourable foreign exchange fluctuations in the amount of \$1.3 million for the three months ended January 31, 2023 and \$3.1 million for Fiscal 2023.

Adjusted EBITDA Margin (a non-IFRS ratio, see “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”) was 1.0% for the three months ended January 31, 2023, increasing by 200 basis points when compared to negative 1.0% in the same period of the prior year. The period-over-period improvement resulted from the increase in Adjusted EBITDA of \$0.8 million discussed above, which was partially offset by the quarter-over-quarter increase in total revenue of \$1.3 million. Conversely, for Fiscal 2023, Adjusted EBITDA Margin was negative 1.7%, compared to 0.1% in Fiscal 2022, representing a decrease of 180 basis points. The decline was mainly the result of the year-over-year decrease in Adjusted EBITDA of \$3.0 million discussed above, paired with the increase in total revenue of \$16.5 million when compared to the prior fiscal year.

Selected Annual Information

(in thousands of U.S. dollars)	Fiscal year ended January 31		
	2023	2022	2021
Revenue	168,396	151,880	126,372
Loss for the year	(18,377)	(97,653)	(41,496)
Adjusted EBITDA	(2,904)	136	6,020
Free Cash Flow	107	(684)	15,132
Loss per share - basic and diluted	(0.35)	(2.88)	(1.57)
Total assets	176,609	179,213	85,701
Total long-term liabilities	12,277	1,112	180,438

Total Assets

Fiscal 2023 compared to Fiscal 2022

Total assets as at January 31, 2023 was \$176.6 million, representing a decrease of \$2.6 million or 1.5% compared to \$179.2 million as at January 31, 2022. The change was primarily driven by a decrease in trade receivables of \$5.3 million, which was the result of a large outstanding customer balance in the prior period that was subsequently collected in the current period; this was partially offset by growth in the customer base and related billings in Fiscal 2023. The decrease was also the result of a decrease in intangible assets, which was primarily due to an impairment loss of \$4.5 million recognized in Fiscal 2023 as described in note 7 of the audited annual consolidated financial statements, as well as a decrease in cash and cash equivalents of \$3.9 million, discussed in the “*Cash Flows*” section below. The decrease was partially offset by an increase in right-of-use assets of \$9.9 million relating to a lease for a new office headquarters that commenced in Fiscal 2023, as described in note 9 of the audited annual consolidated financial statements.

Fiscal 2022 compared to Fiscal 2021

Total assets as at January 31, 2022 was \$179.2 million compared to \$85.7 million as at January 31, 2021, representing a period-over-period increase of \$93.5 million, or 109.1%. The change was primarily driven by an increase in cash and cash equivalents of \$69.5 million from the net proceeds of the IPO on November 3, 2021 as described in the “*Filing of Prospectus and Initial Public Offering*” section above. The increase in total assets was also attributable to an increase in trade receivables of \$11.5 million, which was the result of one large outstanding customer balance as well as growth in the customer base and related billings. Increases in intangible assets of \$5.2 million and goodwill of \$7.5 million also drove the overall increase in total assets and were primarily the result of an acquisition described in the “*Bayfield Acquisition*” section below.

Total Long-Term Liabilities

Fiscal 2023 compared to Fiscal 2022

Total long-term liabilities as at January 31, 2023 was \$12.3 million compared to \$1.1 million as at January 31, 2022, representing an increase of \$11.2 million. The increase was largely driven by an increase in the Company's lease liabilities of \$11.1 million resulting from the new office headquarters lease discussed above.

Fiscal 2022 compared to Fiscal 2021

Total long-term liabilities as at January 31, 2022 was \$1.1 million compared to \$180.4 million as at January 31, 2021, representing a decrease of \$179.3 million. The decrease was largely driven by the conversion of the redeemable convertible preferred shares on November 3, 2021, as described in "Description of Share Capital – Pre-Closing Reorganization" below, accounting for \$178.2 million of the decrease. The remaining \$1.1 million decrease was primarily attributable to net payments on the Company's lease liabilities.

Quarterly Results of Operations

The following tables sets forth selected unaudited quarterly statements of operations data for each of the eight quarters ended January 31, 2023. The information for each of these quarters has 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							
	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021	Jul 31, 2021	Apr 30, 2021
Revenue	42,684	42,668	41,173	41,870	41,406	39,144	36,794	34,536
Cost of revenue	15,358	15,163	14,588	15,517	14,890	22,128	13,282	13,633
Gross profit	27,326	27,505	26,585	26,353	26,516	17,016	23,512	20,903
Operating expenses								
Sales and marketing	14,128	13,803	14,022	13,057	12,926	31,285	11,057	10,137
Research and development	10,562	10,770	10,451	11,285	10,878	17,826	9,570	8,325
General and administrative	6,111	6,524	6,578	6,407	6,581	35,141	4,585	4,349
Impairment loss on intangible assets	4,474	—	—	—	—	—	—	—
Total operating expenses	35,275	31,097	31,051	30,749	30,385	84,252	25,212	22,811
Loss from operations	(7,949)	(3,592)	(4,466)	(4,396)	(3,869)	(67,236)	(1,700)	(1,908)
Interest and other income (expenses), excluding gain (loss) on redeemable convertible preferred shares	1,772	1,095	(159)	(248)	(535)	(146)	(286)	(108)
Gain (loss) on redeemable convertible preferred shares	—	—	—	—	—	25,897	(15,609)	(32,315)
Loss before income taxes	(6,177)	(2,497)	(4,625)	(4,644)	(4,404)	(41,485)	(17,595)	(34,331)
Income tax expense (recovery)	9	128	178	119	(544)	58	208	115
Net loss	(6,186)	(2,625)	(4,803)	(4,763)	(3,860)	(41,543)	(17,803)	(34,446)
Loss per share - basic	(0.12)	(0.05)	(0.09)	(0.09)	(0.07)	(1.48)	(0.64)	(1.26)
Loss per share - diluted	(0.12)	(0.05)	(0.09)	(0.09)	(0.07)	(1.48)	(0.64)	(1.26)
Gross profit as a percentage of revenue	64.0%	64.5%	64.6%	62.9%	64.0%	43.5%	63.9%	60.5%

Revenue

Our total quarterly revenue increased sequentially for all periods presented, with the exception of the quarter ended July 31, 2022. The period-over-period increases are primarily attributable to revenue from new customers, strong revenue retention and expansion from existing customers, and delivery of professional services engagements to customers.

Cost of revenue

Throughout Fiscal 2022, our quarterly costs of revenue remained relatively consistent, with the exception of the quarter ended October 31, 2021 which was significantly higher as it included the Employee Trust Stock-Based Compensation Expense of \$8.1 million. Excluding this impact, the cost of revenue for the quarter ended October 31, 2021 was \$13.9 million, which was consistent with the remaining quarters of Fiscal 2022, averaging \$14.0 million per quarter. During Fiscal 2023, cost of revenue has averaged slightly higher at \$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 through Fiscal 2022 with the exception of the quarter ended October 31, 2021 due to the Employee Trust Stock-Based Compensation Expense discussed previously. Excluding this impact, gross profit for the quarter ended October 31, 2021 was \$25.1 million and followed the trend of the remainder of Fiscal 2022, with gross profit averaging \$24.0 million per quarter. The period-over-period increases were mainly the result of growth in both our subscription and support revenue and professional services and other revenue, driven by acceleration in the adoption of education technologies. During Fiscal 2023, gross profit remained fairly consistent quarter-over-quarter, averaging \$26.9 million per quarter.

As a percentage of revenue, gross profit increased sequentially throughout Fiscal 2022, except for the third quarter. As discussed previously, the gross profit level for the quarter ended October 31, 2021 decreased due to the recognition of \$8.1 million of Employee Trust Stock-Based Compensation Expense in the period. Excluding this impact, gross profit as a percentage of revenue was 64.0%, in line with the trend of period over period increases seen in Fiscal 2022. The quarter over quarter increases were due to the growth of our subscription and support revenues outpacing the increases in cost of revenue. Following this trend, gross profit as a percentage of revenue remained fairly consistent throughout Fiscal 2023, averaging 64.0% throughout the fiscal year.

Operating expenses

Beginning in the quarter ended April 30, 2021 through to the third quarter of Fiscal 2023, with the exception of the quarter ended October 31, 2021, total operating expenses increased sequentially period-over-period as a result of growth in the number of employees and related employee salaries and wages to support our sales expansion and focus on product development. The increases were also driven by increased insurance costs resulting from our transition to operating as a publicly traded company, paired with greater spend on marketing events and travel expenses as COVID-19 restrictions continued to ease. Operating expenses for the three months ended October 31, 2021 were significantly greater than the other quarters presented due to the recognition of Employee Trust Stock-Based Compensation Expense of \$57.7 million in the period. Excluding this impact, operating expenses for the quarter ended October 31, 2021 were \$26.6 million, consistent with the trend seen in Fiscal 2022 through the third quarter of Fiscal 2023. During the most recent quarter ended January 31, 2023, operating expenses increased by \$4.2 million from the prior quarter, primarily as a result of a one-time impairment loss on intangible assets of \$4.5 million, as described in note 7 of the audited annual consolidated financial statements for Fiscal 2023. Excluding this impact, total operating expenses for the quarter ended January 31, 2023 were \$30.8 million, decreasing slightly from the prior quarter, but remaining consistent with total operating expenses incurred during the first three quarters of Fiscal 2023, averaging \$30.9 million per quarter net of impairment losses.

Liquidity and Capital Resources

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.

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 January 31, 2023, our cash balance was \$110.7 million and our working capital surplus was \$36.2 million (\$114.7 million and \$43.0 million as at January 31, 2022, respectively). 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 increase our 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 January 31, 2023 and 2022, and cash flows from (used in) operating, investing, and financing activities for Fiscal 2023, Fiscal 2022 and the three months ended January 31, 2023 and 2022:

(in thousands of U.S. dollars)	Three months ended January 31		Fiscal year ended January 31	
	2023	2022	2023	2022
Cash and cash equivalents	110,732	114,675	110,732	114,675
Net cash from (used in):				
Operations	(5,279)	(3,965)	3,779	112
Investing	(1,767)	7,387	(3,672)	(10,215)
Financing	(736)	69,428	(1,630)	79,078
Effect of foreign exchange on cash and cash equivalents	535	(1,030)	(2,420)	397
Net increase (decrease) in cash and cash equivalents	(7,247)	71,820	(3,943)	69,372

Cash flows provided by/used in operations

Cash flows used in operating activities for the three months ended January 31, 2023 were \$5.3 million compared to \$4.0 million in the comparative period, representing an increase in cash used in operating activities of \$1.3 million. The increase in cash used was mainly attributable to a decrease in cash flow from changes in working capital of \$4.2 million, and was partially offset by a decrease in net loss adjusted for non-cash expenses of \$3.5 million.

Cash flows from operating activities for Fiscal 2023 were \$3.8 million compared to \$0.1 million for Fiscal 2022, representing an increase of \$3.7 million. The increase in operating cash flows was largely the result of a decrease in the net loss adjusted for non-cash expenses of \$2.6 million and an increase in cash flow from changes in working capital of \$1.0 million.

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 \$7.0 million in the three months ended January 31, 2023 compared to \$4.1 million in the same period of the prior year, representing a decrease in Free Cash Flow of \$2.9 million. The decrease was the result of greater purchases of property and equipment in the current period of \$1.7 million, primarily associated with the relocation of our head office, paired with an increase in cash flows used in operating activities of \$1.3 million discussed above. For Fiscal 2023, Free Cash Flow was \$0.1 million, up \$0.8 million compared to negative Free Cash Flow of \$0.7 million in Fiscal 2022. The increase was primarily driven by an increase in cash flows from operating activities of \$3.7 million in the current period when compared to the respective prior period as discussed above. This increase was partially offset by greater purchases of property and equipment of \$2.9 million in the current period as previously noted.

For the three months ended January 31, 2023 and 2022, 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 16.5% and 9.8%, respectively, representing a decrease in Free Cash Flow Margin of 670 basis points. The decrease was the result of lower Free Cash Flow when compared to the prior period, paired with the impact of increased total revenue over the same periods. For Fiscal 2023, Free Cash Flow margin was 0.1%, up 50 basis points from negative Free Cash Flow Margin of 0.5% in Fiscal 2022. The increase was the result of increased Free Cash Flow year-over-year, and was partially offset by the impact of increased total revenue over the same period.

Cash flows provided by/used in investing activities

Cash flows used in investing activities for the three months ended January 31, 2023 were \$1.8 million, compared to cash flows from investing activities of \$7.4 million in the same period of the prior year. The year-over-year decrease of \$9.2 million was mainly attributable to principal and interest repayments on a loan owed by 2416535 Ontario Inc., a holding company indirectly controlled by John Baker (“**Baker Holdco**”) to D2L Corporation, a subsidiary of the Company, of \$12.0 million that were received in the comparative period in connection with our IPO and had no impact in the current period. Greater purchases of property and equipment of \$1.7 million in the current period also drove the decrease. The decrease was partially offset by cash used in the acquisition of Bayfield of \$4.9 million in Fiscal 2022, as described in note 23 of the audited annual consolidated financial statements, that had no impact in the current period.

For Fiscal 2023, cash flows used in investing activities were \$3.7 million compared to \$10.2 million for Fiscal 2022, representing a year-over-year decrease of \$6.5 million. The decrease was primarily driven by \$5.6 million cash used in the prior period to acquire Bayfield, as described in note 23 of the audited annual consolidated financial statements. The decrease was also the result of the prior period issuance of a loan by D2L Corporation to Baker Holdco, net of repayments, of \$3.9 million, as described in note 19 of the audited annual consolidated financial statements. Both transactions did not have an impact in the current period. The year-over-year decrease was partially offset by increased purchases of property and equipment of \$2.9 million in Fiscal 2023 which is mainly associated with the relocation of our head office.

Cash flows provided by/used in financing activities

Cash flows used in financing activities for the three months ended January 31, 2023 were \$0.7 million compared to cash flows from financing activities of \$69.4 million in the same period of the prior year, representing a decrease of \$70.1 million. The decrease was primarily the result of our IPO which was completed in the comparative prior period and resulted in \$75.1 million in gross proceeds received, and was partially offset by \$5.2 million in related share issuance costs; these transactions did not have an impact in the current period.

Cash flows used in financing activities were \$1.6 million in Fiscal 2023 compared to cash flows from financing activities of \$79.1 million in the Fiscal 2022, representing a decrease of \$80.7 million. The decrease was primarily the result of our IPO proceeds of \$75.1 million, net of related share issuance costs of \$5.2 million, discussed above. The decrease was also the result of a year-over-year decrease in proceeds received of \$11.0 million from the issuance of Class O common shares and Subordinate Voting Shares on the exercise of stock options, mainly in connection with our IPO, in the prior period.

Credit facility

On July 24, 2013, we entered into a credit facility (the “**Facility**”) with Silicon Valley Bank, which matured on March 19, 2022. Under the terms of the agreement and the amendments up to and including the amendment on March 19, 2021, the Facility provided for a \$20.0 million revolving capital line of credit bearing interest at: (i) the greater of the U.S. prime rate, as published by the Wall Street Journal, plus 1.25%, and 5.00% if the adjusted quick ratio (“**AQR**”) is less than 2:1; or (ii) the greater of U.S. prime rate plus 0.75%, and 4.5% if the AQR is greater than 2:1. The Facility was secured by a first priority general security interest over all assets of the Company, excluding intellectual property and certain carve-outs. There was no balance outstanding on this credit facility at maturity or at January 31, 2022.

We have made the decision to not renew this credit facility agreement as we believe the Company has sufficient liquidity to meet our current and short-term financial obligations (see “*Liquidity and Capital Resources – Working capital*”).

Contractual obligations

The following are the remaining contractual maturities of financial liabilities as at January 31, 2023. 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 and accrued liabilities	23,451	23,451	—	—	—
Operating commitments ⁽¹⁾	47,920	10,239	19,626	8,599	9,456
Total contractual obligations	71,371	33,690	19,626	8,599	9,456

Notes:

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

Financial Outlook

D2L is initiating financial guidance for the year ended January 31, 2024 (“**Fiscal 2024**”) as a supplement to the target operating model below, which reflects the operating levels the Company expects to achieve by the year ended January 31, 2025 (“**Fiscal 2025**”) and maintain thereafter, and is unchanged from the target operating model disclosed in our MD&A for the second quarter of Fiscal 2023. D2L plans to continue making measured investments for growth in Fiscal 2024, while optimizing our operations and expenditures towards increasing levels of profitability. Specifically, for Fiscal 2024 the Company is issuing the following guidance:

- Subscription and support revenue in the range of \$159 million to \$161 million, implying growth of 9% to 10% over Fiscal 2023;
- Total revenue in the range of \$180 million to \$182 million, implying growth of 7% to 8% over Fiscal 2023; and
- Adjusted EBITDA in the range of \$4 million to \$6 million.

The above guidance demonstrates the continuation of D2L’s operations to one of balanced growth and profitability including returning to positive Adjusted EBITDA in Fiscal 2024 relative to an Adjusted EBITDA loss in Fiscal 2023. The achievement of our positive Adjusted EBITDA guidance in Fiscal 2024, and the modeled Adjusted EBITDA outlined in our Fiscal 2025 target operating model, is based upon continued efficiencies in our operations and scale as we grow our topline revenue. These guided revenue growth rates in Fiscal 2024 are impacted by the levels of sales activity that occurred during Fiscal 2023, and the resulting impact of such activity on the corresponding revenue recognition in Fiscal 2024. This impact on revenue growth is expected to be most pronounced in the first half of Fiscal 2024.

Medium Term target operating model ¹

In September 2022, management presented an updated target operating model due to an evolution of our strategy towards one of balanced growth and profitability in response to changes, including external factors outside our control impacting the markets that our customers operate in, labour market constraints, and general economic conditions.

Our target operating model reflects the operating levels that we expect to achieve by Fiscal 2025 and maintain thereafter. Our target operating model is unchanged from that which was disclosed in September 2022 as presented in the MD&A for the second quarter ended in Fiscal 2023.

	Medium-Term Targets (FY25)
Revenue Growth	12-15%
Adjusted Gross Margin ^{(2) (3)}	65-70%
Adjusted EBITDA Margin ^{(2) (3)}	13-16%
Free Cash Flow Margin ^{(2) (3)}	16-19%

- (1) See “*Forward-Looking Information*”.
- (2) As a % of revenue.
- (3) See “*Non-IFRS and Other Financial Measures*”.

Our target operating model is based on assumptions and factors that we believe are reasonable in the circumstances, given the applicable time periods, our current and past growth rates, our current customer contractual commitments and renewal experience and historic results, as well as our view of the drivers of our growth, estimated growth in our target addressable market, and our expectations for our growth strategies. The principal assumptions and factors underlying our target operating model are discussed below. See also the assumptions and factors noted at “*Forward-Looking Information*”.

Adjusted EBITDA Margin, Adjusted Gross Margin and Free Cash Flow Margin are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. See “*Non-IFRS and Other Financial Measures – Non-IFRS Financial Measures and Non-IFRS Financial Ratios*”.

Revenue Growth Target

Our target operating model contemplates achievement of annual revenue growth of 12 to 15% by Fiscal 2025. The key underlying drivers for this growth are discussed below.

- *Historic Revenue Growth* – D2L achieved revenue growth of over 15% for the year ended January 31, 2021 (“**Fiscal 2021**”) relative to the year ended January 31, 2020 (“**Fiscal 2020**”), revenue growth of over 20% in Fiscal 2022 relative to Fiscal 2021, and revenue growth of 11% in Fiscal 2023 relative to Fiscal 2022 (or 14% for Constant Currency Revenue growth). D2L has provided guidance on subscription and support revenue growth of 9 to 10% and total revenue growth of 7 to 8% for Fiscal 2024. These guided revenue growth rates in Fiscal 2024 are impacted by the levels of sales activity that occurred during Fiscal 2023, and the resulting impact of such activity on the corresponding revenue recognition in Fiscal 2024. This impact on revenue growth is expected to be most pronounced in the first half of Fiscal 2024, after which we expect growth rates to begin to accelerate. This historical revenue growth performance, and the assumptions and factors described herein and below, support the achievement of our revenue growth target in Fiscal 2025.
- *Contracted Revenue Commitments* – The majority of our customers enter into contracts with us that have a term of three to five years, with no right of termination for convenience. In setting our targets, our visibility into the future is benefitted by our long-term contract commitments from customers as evidenced by our total remaining non-cancellable performance obligations balance of \$368 million as at January 31, 2023 and as disclosed in Note 5 of our audited annual consolidated financial statements. Of this amount, 41% or approximately \$151 million, is expected to be realized in Fiscal 2024.
- *Existing Customer Retention and Expansion* – As evidenced by our more than 100% Net Revenue Retention Rate over each of the last three fiscal years, our positive renewal experience indicates that we will continue to expect to obtain contract renewals from our customers. As our existing customers seek to enhance their learning environments, we anticipate maintaining a Net Revenue Retention Rate greater than 100% as we see opportunities to cross-sell our add-on solutions such as Performance + and Creator+ and upgraded support and professional services offerings.
- *Investment in Sales force and Channel Partners* – To capitalize on the growth opportunity available in our addressable market, we continue to make measured investments in our direct salesforce and channel relationships, increasing our access to and participation within markets and sales opportunities, which we expect will continue to generate revenue growth in the medium-term. We anticipate our returns (as measured by a net increase in Annual Recurring Revenue) from our sales and marketing investments to continue and improve over the medium-term outlook period. Our revenue growth target assumes that the expansion of our sales efforts will result in an increase in new customers, growth from our existing customer base, and facilitate the international expansion of revenue outside of North America.

- *Expansion of Revenue from International Markets* – In Fiscal 2023, less than 20% of our total revenue was derived outside North America, but we expect our international revenue to grow over time and outpace revenue growth in North America on a percentage basis over the medium-term. We anticipate this higher growth rate based upon growing market acceptance of learning technology solutions, lower current market adoption of paid solutions resulting in more greenfield opportunities than replacements, and our continued penetration into new markets and regions for our Company. We note foreign exchange can have an impact on growth rates. Our sales organization continues to grow the international revenue pipeline, and we intend to invest in recently entered geographies both through direct salesforce and channel relationships expansion, including markets in Latin America and Asia. This will increase our access to and participation within markets and sales opportunities, which we expect will generate increased revenue growth from international markets.
- *Ongoing Product Development* – Based on past market acceptance of new products and services as well as enhancement of our existing products and services, and the resulting increase in our revenue over the past three fiscal years, we believe our continued focus on introducing new products and services will enable us to better serve the changing needs of both prospective and current customers, thus supporting revenue growth. We believe this continued investment will enhance our differentiation as a technology innovator and platform leader and contribute to our revenue growth and achievement of our revenue growth target in the medium-term.
- *Strategic Transactions* – While inorganic growth has historically not been a major part of our growth strategy, we intend to selectively consider strategic acquisitions and investments that would add to the revenue of D2L over the medium-term. The attainment of the revenue growth target outlined above is not dependent on the completion of any such future strategic transactions. See “*Description of Our Business – Our Growth Strategy*” of our most recently filed annual information form for additional details.

Adjusted Gross Margin Target

Our target of achieving Adjusted Gross Margin between 65% to 70% by Fiscal 2025 is driven by expected margin improvements due to continued increases in the scale and efficiency of our service delivery. Our Adjusted Gross Margin target represents an improvement in the Adjusted Gross Margin experienced in both Fiscal 2021 of 61% and Fiscal 2022 of 63%, which were influenced by an increased online presence from learners during COVID-19 restrictions causing an increase in hosting and support costs, as well as a continued increase in Fiscal 2023 Adjusted Gross Margin to 64%. We expect to realize continued cost efficiencies related to cloud hosting fees and support costs, which will result in our cost of revenue decreasing as a percentage of our total revenues over the medium-term. We completed a full transition of our offerings to the cloud over a multi-year period ended in Fiscal 2020 that enables increased flexibility, stability and velocity in our product delivery. This transition continues to present an opportunity for realization of further cost efficiencies as we improve the efficiency and effectiveness of our product development and delivery environment and pursue additional optimization initiatives.

Adjusted EBITDA Margin Target

Achieving our Adjusted EBITDA Margin target of between 13% to 16% by Fiscal 2025 is driven by expected improvement in our Adjusted Gross Margin target as outlined above, expected operating efficiencies in sales and marketing costs, and the expected operating leverage in our business model. We have a demonstrated history of achieving positive Adjusted EBITDA Margin as demonstrated in Fiscal 2021 with Adjusted EBITDA Margin of approximately 4.8% and in Fiscal 2022 of approximately 0.1%, and set targets for future performance based upon achievement of our medium-term target and measured pursuit of beneficial opportunities available to the business. The Company has made significant investments in sales and marketing and research and development in Fiscal 2022 and Fiscal 2023 which reduced Adjusted EBITDA Margin in these respective fiscal periods. The Company anticipates the future revenue growth from these investments and the scaling of sales and marketing costs and research and development costs in the medium-term will support achievement of this Adjusted EBITDA Margin target. We believe anticipated improvements in our salesforce productivity and streamlined processes in marketing and lead generation activities will drive a decline in sales and marketing costs as a percentage of revenue over the medium-term. While research and development spend will continue to remain a focus area, we expect these costs to decline as a percentage of revenue over the medium-term due in part to the growth of our revenues and focused prioritization of development. Additionally, we expect our general and administrative costs, which consist of administrative, finance, legal, human resources, information technology,

operations and strategic functions, to also decline as a percentage of revenue over the medium-term due in part to growth of our revenues and operational scale and efficiency.

Free Cash Flow Margin Target

We expect our Free Cash Flow Margin to be between 16 to 19% by Fiscal 2025. We achieved Free Cash Flow Margin of approximately 12% in Fiscal 2021, -0.5% in Fiscal 2022, and 0.1% in Fiscal 2023, and set targets for future performance based upon achievement of our medium-term target, and measured pursuit of beneficial opportunities available to the business. The Company has made significant investments in sales and marketing and research and development in Fiscal 2022 and Fiscal 2023, which has reduced Free Cash Flow Margin in these respective periods. The Company anticipates that future revenue growth from these investments, and the scaling of sales and marketing costs and research and development costs thereafter, will support achievement of our Free Cash Flow Margin target. Given the low capital intensity of our business model, we expect that our Free Cash Flow Margin target will be achieved primarily by increases in our cash flow from operating activities, as outlined by the expected improvements in our Adjusted EBITDA Margin target discussed above. Additionally, continued growth in billings from our customer contracts that are typically billed in advance of services will favourably impact our ability to generate Free Cash Flow.

The foregoing information has been prepared by management of the Company and has been calculated using accounting policies that are generally consistent with our current accounting policies. This information is based on underlying assumptions and factors that management believes are reasonable in the circumstances, given the applicable time periods, as well as the Company's capabilities and business plans, historical results, and customer purchasing history. The foregoing is also based on management's current strategies, assumptions and expectations concerning our growth opportunities, and our assessment of market dynamics, as well as assumptions relating to external factors that may be beyond our control, including general economic conditions remaining stable, the industry trends described in the "*Industry Overview and Trends*" section of the Company's AIF, the outcome of our international expansion, offering expansion, and partner ecosystem expansion initiatives, and cost savings from efficiency improvements and operating leverage.

The foregoing is based on underlying assumptions and factors that management believes are reasonable in the circumstances, given the applicable time periods, the Company's capabilities and business plan, historical results and customer purchasing history. However, there can be no assurance that we will be successful in achieving the levels of revenue growth, Adjusted Gross Margin, Adjusted EBITDA Margin, and Free Cash Flow Margin set out above. Nor can any assurances be given regarding the realization of our expectations and drivers that anticipated growth and margin improvements are based on.

The purpose of disclosing our medium-term financial target operating model is to provide investors with more information concerning the Company's results of operations that management currently believes is achievable. However, there can be no assurance that we will be successful in achieving the levels of revenue growth, Adjusted Gross Margin, Adjusted EBITDA Margin, and Free Cash Flow Margin set out above. For example, our strategy may evolve in response to changes in external factors outside our control such as changes in the markets that our customers operate in or general economic conditions, and these factors may affect our ability to achieve our target operating model. Our target operating model is also forward-looking information for the purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary materially from the targets discussed above. See also "*Summary of Factors Affecting our Performance*" and "*Forward-Looking Information*" set out above and "*Risk Factors*" in the Company's AIF for a description of other assumptions underlying the forward-looking information and of the risks and uncertainties that generally impact our business and that could cause actual results to vary materially.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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 January 31, 2023, no material contingencies have been identified.

Employee stock trust tax matter

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

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

Customer dispute matter

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

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

On August 16, 2022, the Company and the customer executed a full and final settlement agreement to fully resolve all claims. The Company repaid the customer \$3,250,550, thereby retaining \$2,050,000 of the \$5,300,550 which the customer previously paid to Company under the relevant contract. The settlement amount was paid in its entirety on August 17, 2022, and a dismissal order was granted on September 6, 2022.

Related Party Transactions

Bayfield Acquisition

On August 3, 2021, D2L Corporation, a subsidiary of the Company, acquired a substantial portion of the assets (the “**Purchased Assets**”) of Bayfield, including Bayfield’s elementary school course content, software and related intellectual property, and offered employment to substantially all of its employees (the “**Bayfield Acquisition**”). The Bayfield Acquisition was expected to provide us with increased internal capability to develop course content and complement our solutions offering, enabling us to more effectively compete for business for customers seeking a single solution provider.

Bayfield created online learning experiences, including a variety of online courses for organizations across North America. John Baker, the Company’s Chief Executive Officer (“**CEO**”), had a minority interest in, and other business dealings with, Bayfield, which was controlled by family members of John Baker. The Bayfield Acquisition was approved by the independent members of the Board with Melissa Howatson, the Company’s former Chief Financial Officer (“**CFO**”), and John Baker abstaining, following declaration by John Baker of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Bayfield Acquisition.

Upon the closing of the Bayfield Acquisition, the Reseller Agreement between the Company and Bayfield was cancelled, and all amounts of prepaid royalty, fees and amounts owing by Bayfield to the Company under such agreement ceased to be owing, and Bayfield ceased to have any rights under the agreement.

The total consideration paid for the Bayfield Acquisition was \$12.7 million (C\$15.9 million). Consideration paid consisted of: (i) cash of \$9.6 million (C\$12 million), of which \$0.6 million (C\$0.8 million) was paid on closing, \$0.9 million (C\$1.1 million) was payable on November 15, 2021, and a promissory note was issued for the remaining (\$8.1 million (C\$10.1 million); and (ii) forgiveness of the prepaid royalty, fees and amounts owing by Bayfield to D2L of \$3.1 million (C\$3.9 million).

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

The Bayfield Acquisition was intended to allow the Company to increase its level of control over existing and future Bayfield product offerings and course content, thereby supporting a more comprehensive solution offering to the Company’s educational customers. The Company expected synergies to be gained as a result of the Bayfield Acquisition, through increased subscription and support revenue, particularly within the K-12 markets, over the long-term. In the short-term, the Company expected its research and development costs to increase moderately as a result of the employees gained through the acquisition, but that these costs would be partially offset by lower cost of subscription and support from the elimination of royalty fees previously charged by Bayfield for the purchase of course content under the cancelled Reseller Agreement.

Subsequent to the Bayfield Acquisition (and as disclosed in our MD&A for the second quarter of Fiscal 2023), management evolved the Company’s target operating model towards one of balanced growth and profitability in response to changes in the macroeconomic and inflationary environment. Under this updated operating model, all go-to-market and product investments are measured and prioritized against our objective to achieve balanced growth and an accelerated path to profitability. Based on the historical performance of the content assets from the Bayfield Acquisition, as well as the anticipated future results and additional expenditures required to achieve these results, management determined that this was not an area of prioritized investment. Therefore, these assets were determined to be impaired, and a corresponding impairment charge was recorded in the fourth quarter results of the Company in the amount of \$4.5 million. Refer to note 7 of the Company’s audited annual consolidated financial statements for additional details.

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 19 of the audited annual consolidated financial statements provide additional details on our related party transactions:

Services we receive:

Resale of Course Content from Bayfield

On January 31, 2020, we entered into a reseller agreement with Bayfield (as amended, the “**Reseller Agreement**”) pursuant to which we had the exclusive right to resell certain learning content created by Bayfield, and agreed to make commercially reasonable efforts to market and sell that content. The Reseller Agreement was approved by the Board, John Baker abstaining, following declaration by John Baker of his conflict of interest. The Reseller Agreement did not limit our ability, either during or after its term, to offer products or functionality that may be similar to, competitive with, or functionally comparable to Bayfield’s products or services.

Under the terms of the Reseller Agreement, revenues from our sales of Bayfield’s learning content were to be shared by D2L and Bayfield proportionately on a pre-determined basis. In connection with the Reseller Agreement, D2L agreed to make payment of certain amounts to fund the creation of learning content by Bayfield. These additional payments represented a prepaid royalty to Bayfield, which were to be deducted from future revenue sharing payments.

As at January 31, 2023 and 2022, the Company had nil in amounts payable to Bayfield and had a prepaid expense balance of nil for both periods, pursuant to the Reseller Agreement. Revenue earned by the Company during Fiscal 2023 and Fiscal 2022 pursuant to the Reseller Agreement was nil and \$65,008, respectively.

As noted above, the Reseller Agreement between D2L and Bayfield terminated on the closing of the Bayfield Acquisition, and all prepaid royalties and revenue sharing investments owing by Bayfield to D2L Corporation were forgiven pursuant to the terms of the Bayfield Acquisition.

Learning and creative services from Bayfield

D2L entered into a services agreement with Bayfield dated June 2020 (the “**Bayfield Services Agreement**”) pursuant to which Bayfield was retained to provide services to D2L or its customers, including learning and creative services. The Bayfield Services Agreement was approved by the Board, John Baker abstaining, following declaration by John Baker of his conflict of interest. The Bayfield Services Agreement was a non-exclusive arrangement, permitting each party to enter into similar arrangements with any third-party, and was terminable upon 30 days prior written notice by either party.

Under the terms of the Bayfield Services Agreement, Bayfield acted as a subcontractor to D2L, providing learning and creative services to assist D2L in its delivery of one-time engagements on client contracts. Such one-time service delivery engagements typically are completed within 12 months from inception.

Services acquired from Bayfield pursuant to the Bayfield Services Agreement resulted in aggregate fees paid to Bayfield of nil and \$124,323 for Fiscal 2023 and Fiscal 2022, respectively.

As part of the closing of the Bayfield Acquisition, the Bayfield Services Agreement was terminated on August 3, 2021.

Lease of Premises - Bayfield

On February 2, 2022, D2L Corporation entered into a new lease agreement with 2372739 Ontario Inc. (“**2372739**”) for a media studio and office space (the “**Media Studio**”) in Bayfield, Ontario (the “**Media Studio Lease**”). 2372739 is controlled by a family member of John Baker, the Company’s CEO. The Media Studio Lease was approved by the independent members of the Board of Directors, John Baker abstaining, following declaration of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Media Studio Lease.

D2L Corporation paid \$2,193 (2,800 CAD) per month, for the period beginning February 2, 2022 and terminating on October 10, 2022. The Company recognized rent expense of nil and \$18,110 (23,303 CAD) for the three and twelve month periods ended January 31, 2023, respectively (2022 – nil for both periods). The Media Studio Lease extended the Company's pre-existing arrangement to use the Media Studio pursuant to the Transition Services Agreement dated August 3, 2021, in order to properly facilitate the transition of, and utilization of, the assets acquired from Bayfield Design Inc., as described in note 19 of the audited annual consolidated financial statements.

Lease of Premises - Catalyst

On October 15, 2021, D2L Corporation entered into a new lease agreement with Catalyst 137 Kitchener L.P. ("**Catalyst**") for office space in Kitchener, Ontario (the "**Kitchener Lease**"). John Baker, the Company's CEO, has a minority interest in Catalyst. The Kitchener Lease was approved by the independent members of the Board of Directors, John Baker abstaining, following declaration of his conflict of interest. John Baker did not participate in the negotiation of the terms of the Kitchener Lease.

The Kitchener Lease will replace the Company's current head office space in Kitchener. The term of the Kitchener Lease is 11.5 years, which commenced on February 1, 2022. The Company recognized lease-related expenses of \$364,694 and \$1,666,063 (491,312 CAD and 2,191,593 CAD) for the three and twelve months ended January 31, 2023, respectively (2022 – nil for both periods). D2L Corporation has the following cash flow commitment relating to the Kitchener Lease:

(in thousands of dollars)	CAD	USD
February 1, 2023 - January 31, 2024	1,013	752
February 1, 2023 - January 31, 2024	1,783	1,324
February 1, 2024 - January 31, 2025	1,859	1,380
February 1, 2025 - January 31, 2026	1,938	1,439
February 1, 2026 - July 31, 2033	14,756	10,956
Total undiscounted commitment	21,349	15,851

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, the Company's CEO, had a minority interest and other business dealings. 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 were \$21,931 and \$90,671 for the three and twelve months ended January 31, 2023, respectively (2022 – \$34,231 and \$136,685, respectively). As at January 31, 2023, the Company had no amounts receivable from VHS.

The Virtual High School Agreement term ends on December 31, 2023, subject to automatic renewal over an additional 5-year period unless either party notifies the other in writing of its intent to terminate 60 days in advance.

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 and restricted cash with high credit quality financial institutions.

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 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 January 31, 2023 is as follows:

(In thousands of local currency)	CAD	GBP	AUD	SGD	BRL	EUR
Cash and cash equivalents	10,706	3,633	8,791	3,615	14,035	5,885
Trade and other receivables	11,071	2,325	177	1,430	808	8
Uninvoiced revenue	1,092	71	—	243	1,642	—
Accounts payable and accrued liabilities	18,262	1,133	1,227	232	604	6

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, accounts payable and accrued liabilities, and redeemable convertible preferred shares, the latter of which was held prior to our IPO in Fiscal 2022. For all financial instruments currently held, their fair values approximate their carrying values due to their short-term nature.

To assess the fair value of the redeemable convertible preferred shares that were previously held, we considered key inputs into the valuation including underlying revenue and cash flow forecasts and the risk adjusted discount rate applied to the valuation for the relevant prior reporting periods. The estimated fair value increased as underlying revenue and cash flow forecasts increased. The estimated fair value decreased as the risk adjusted discount rate applied to the valuation increased. These fluctuations in fair value materially impacted net income in the corresponding period of the prior year and are included in prior period figures throughout this MD&A. As noted previously, the redeemable convertible preferred shares were converted to Subordinate Voting Shares, subject to certain adjustments, immediately prior to the closing of our IPO on November 3, 2021. Accordingly, changes in the fair value of our redeemable convertible preferred shares no longer exist and will not impact our results going forward.

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 estimates and judgements are outlined below. We have determined that we operate in a single operating and reportable segment.

Revenue recognition

Our main sources of revenue are recurring subscriptions and support revenue derived from fees earned from customers for accessing D2L's e-Learning solutions, as well as professional services and other revenue from consultation services to support the implementation of and training related to the e-Learning solutions. As many of our contracts with customers contain promises to deliver the multiple products and services above, the overall methodology used to determine the standalone selling price ("SSP") for each distinct performance obligation requires significant judgments and estimates within a contract with a customer. The methodology used to determine the SSP depends on the nature of the products and services and how they are priced in contracts with customers. This allocation affects the amount and timing of revenue recognized for each performance obligation.

To determine the SSP of promised products or services, we conduct a regular analysis to determine whether various products or services have an observable SSP. If the Company does not have an observable SSP for a particular product or service, then SSP for that particular good or service is estimated using reasonably available information and maximizing observable inputs with approaches including historical pricing, cost plus a margin, adjusted market assessment, and the residual approach. Refer to note 2(a) of the Company's audited annual consolidated financial statements for the year ended January 31, 2023 for additional information on the assumptions and estimates used.

Uncertain tax positions and recoverability of deferred tax assets

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

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Our judgement is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Trade and other receivables

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

Share-based payments

We use the Black-Scholes valuation model to determine the fair value of equity-settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield, the risk-free interest rate and the forfeiture rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate. Refer to note 15 of our audited annual consolidated financial statements for the year ended January 31, 2023 for additional information on the assumptions and estimates used.

Fair value of acquired intangible assets

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

Impairment of non-financial assets

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

Initial measurement of lease liabilities

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

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

Accounting Policies

The significant 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, 2023.

Recently Issued Accounting Standards

New and amended standards and interpretations adopted by the Company

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. For the year ended January 31, 2023, the Company adopted the following amended accounting standards:

- IAS 16, *Property, Plant and Equipment*, was amended to clarify the accounting for net proceeds from selling any items produced while bringing an item of property, plant and equipment into the location and condition necessary for it to be capable of operating in the manner intended by management.
- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, was amended in regards to costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

Neither of these amendments had an impact on the Company's audited annual consolidated financial statements.

New and amended standards and interpretations issued but not yet effective

As at the date of this MD&A, we have not yet applied the following new and revised IFRS that have been issued but are not yet effective:

The IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying how to distinguish changes in accounting policies from changes in accounting estimates. The IASB also issued an amendment to IAS 1, *Presentation of Financial Statements*, helping preparers in deciding which accounting policies to disclose in their financial statements. Amendments were also issued by the IASB for IAS 12, *Income Taxes*, which clarifies how to account for deferred tax on transactions such as leases and decommissioning obligations. These amendments to IAS 1, IAS 8 and IAS 12 are effective for annual periods beginning on or after January 1, 2023, with early application permitted. While we are currently evaluating the impact of these amendments, we do not expect any significant impacts to our consolidated financial statements.

The IASB issued further amendments to IAS 1, *Presentation of Financial Statements* affecting the presentation of liabilities as current or non-current in the statement of financial position and requiring companies to disclose their material accounting policy information. The IASB also issued amendments to IFRS 16, *Leases*, which include additional requirements to explain how a company accounts for a sale and leaseback after the date of the transaction. These amendments to IAS 1 and IFRS 16 are effective for annual periods beginning on or after January 1, 2024, with early application permitted. While we are currently evaluating the impact of these amendments, we do not expect any significant impacts to our consolidated financial statements.

Disclosure Controls and Internal Controls Over Financial Reporting

Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining our disclosure controls and procedures, as that term is defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). The CEO and the CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated, or caused to be evaluated under our supervision, the effectiveness of our disclosure controls and procedures at January 31, 2023 and based on the evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective as of such date.

Internal Controls over Financial Reporting

The Company's CEO and CFO are responsible for establishing and maintaining our internal controls over financial reporting (as that term is defined in NI 52-109, "ICFR"). Our 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 CFO, 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.

Our CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of our ICFR as at January 31, 2023 and based on the evaluation, the CEO and CFO have concluded that the ICFR were effective as of such date.

There have been no changes in our ICFR during the period beginning on November 1, 2022 and ended on January 31, 2023 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Description of Share Capital – Pre-Closing Reorganization

Prior to the closing of the IPO on November 3, 2021, the Company carried out a series of transactions (collectively, the "Pre-Closing Reorganization"), including the following:

- On November 2, 2021, the Company amended its Articles to amend the terms of the Class A Common Shares and redesignate them as Subordinate Voting Shares, and create an unlimited number of Multiple Voting Shares and an unlimited number of preferred shares, issuable in series;
- Immediately prior to the closing of the IPO on November 3, 2021, the then outstanding Preferred Shares, Class O Common Shares and Class T Shares were automatically converted into Subordinate Voting Shares in accordance with their terms;
- The Class T Shares, which were held by the Employee Stock Trust, were converted in accordance with their terms for a fraction of a Subordinate Voting Share of which (i) the numerator is US\$7.44, and (ii) the denominator is the fair market value of the Subordinate Voting Shares, which the Board determined to be the offering price of C\$17.00, converted into U.S. dollars using the rate of exchange published by the Bank of Canada for conversion into U.S. dollars on the second business day preceding the date of the Underwriting Agreement dated October 27, 2021;
- the Employee Trust distributed all Subordinate Voting Shares it held to its outstanding beneficiaries, excluding the Subordinate Voting Shares sold pursuant to the Secondary Offering; and
- the Subordinate Voting Shares issued to Baker Holdco were exchanged for an equal number of Multiple Voting Shares pursuant to a share exchange agreement entered into between the Company and Baker Holdco.

In addition, as part of the Pre-Closing Reorganization, the class of shares underlying each outstanding option to acquire Class O Common Shares of the Company pursuant to the Legacy Option Plan was adjusted to reflect the Pre-Closing Reorganization.

Authorized Share Capital

As at January 31, 2023, 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 March 24, 2023, 25,826,465 Subordinate Voting Shares, 27,390,588 Multiple Voting Shares, and employee stock options under the Legacy Option Plan to purchase a total of 2,780,698 Subordinate Voting Shares are issued and outstanding. In connection with the IPO, the company adopted a long term incentive plan whereby the Company has 2,168,401 restricted stock units ("RSUs") issued and outstanding and 174,599 deferred share units ("DSUs") issued and outstanding, which RSUs and DSUs may ultimately be settled through the issuance of Subordinate Voting Shares on a 1:1 basis.

Risk Factors

We are exposed to risks and uncertainties in our business that may impact on our financial performance, position or condition and cash flows, which impacts may be material, including the risk factors set forth below:

- Market adoption of cloud-based learning solutions may not grow as we expect, which may harm our business and results of operations and even if market demand increases, the demand for our platform may not increase.
- The market in which we participate is highly competitive, and if we do not compete effectively, our ability to gain new customers, retain existing customers and grow our business could be harmed and our results of operations could be adversely affected.
- If for any reason we are not able to develop enhanced and new features, keep pace with technological developments or respond to future disruptive technologies, our business will be harmed.
- If our customers do not expand their use of our platform and services beyond their current organizational engagements or renew their existing contracts with us, or if we do not acquire new customers, our ability to grow our business and improve our results of operations may be adversely affected.
- If we are unable to increase sales of subscriptions to our platform to customers while mitigating the risks associated with serving such customers, our business, financial condition, and results of operations would suffer.
- Regulatory requirements placed on our software and services could impose increased costs on us, delay or prevent our introduction of new products and services, and impair the function or value of our existing products and services.
- Continued economic uncertainty, an economic slowdown or a recession could affect our results, and other adverse economic and market conditions and reductions in spending may adversely impact our business and results of operations.
- The current macroeconomic conditions make it difficult to evaluate our future prospects and may increase the risk that we will not make accurate predictions of our future growth.
- If our security measures are breached or unauthorized access to customer data is otherwise obtained, our platform may be perceived as insecure, we may lose existing customers or fail to attract new customers, our reputation may be harmed, and we may incur significant liabilities.
- Privacy, data protection, and information security concerns, and data collection and transfer restrictions and related domestic or foreign regulations, may limit the use and adoption of our platform and adversely affect our business.
- If we fail to effectively manage our growth or our business does not grow as we expect, our business and results of operations could be harmed.
- Mergers or other strategic transactions involving our competitors or customers could weaken our competitive position, which could harm our results of operations.
- Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased costs of sales, decreased revenue and lower average selling prices and gross margin percentages, all of which would harm our results of operations.
- If we are unable to hire, retain and motivate qualified employees, our business will suffer.
- Failure to effectively invest in our sales and marketing capabilities or to select appropriate marketing channels could harm our ability to increase our customer base and achieve broader market acceptance of our platform.
- We may face exposure to foreign currency exchange rate fluctuations.
- If we cannot maintain our Company's culture, we could lose the innovation, creativity, collaboration, and focus on execution that we believe contribute to our success and our business may be harmed.
- We are dependent on the continued services and performance of our senior leadership team and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

- Our business can be impacted by government policy and regulatory actions.
- Our quarterly and annual results of operations may vary significantly and may be difficult to predict. If we fail to meet the expectations of investors or securities analysts, our share price and the value of the Subordinate Voting Shares could decline.
- Seasonality may cause our sales and customer growth to vary from quarter-to-quarter depending on the variability in the volume and timing of sales and renewals.
- We rely upon Amazon Web Services (“**AWS**”) to operate certain aspects of our service and any disruption of or interference with our use of AWS could impair our ability to deliver our platform and applications to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers and harm to our business.
- Changes to our platform, services or networks may result in a loss of customers.
- Changes in our pricing models could adversely affect our revenue, gross profit and financial position.
- We recognize revenue from subscriptions over the term of our customer contracts, and as such our reported revenue and billings may differ significantly in a given period, and our revenue in any period may not be indicative of our financial health and future performance.
- Our sales cycles can be unpredictable, and our sales efforts require considerable time and expense. As a result, the timing of our billings and revenue are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.
- We may not receive significant revenue as a result of our current research and development efforts.
- We believe our long-term success depends in part on continuing to expand our international sales and operations and we are therefore subject to a number of risks associated with international sales and operations.
- We rely upon Software as a Service (“**SaaS**”) technologies from third-parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and results of operations.
- Our growth depends in part on the success of our relationships with third-parties.
- If we do not maintain the compatibility of our solutions with third-party applications that our customers use in their business processes, demand for our solutions and revenue could decline.
- We have incurred operating losses and negative cash flows in the past and may incur operating losses and negative cash flows in the future.
- If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.
- Acquisitions or investments in other companies or technologies which could divert our management’s attention, result in additional dilution to our shareholders, and otherwise disrupt our operations and harm our results of operations.
- If we fail to adequately protect our proprietary rights, our competitive position could be impaired and we may lose valuable assets, generate reduced revenue or experience slower growth rates, and incur costly litigation to protect our rights.
- An assertion by a third-party that we are infringing its intellectual property could subject us to costly and time-consuming litigation which could harm our business.
- The use of open source software in our products may expose us to additional risks and harm our intellectual property.
- Issues in the use, adoption or innovation of artificial intelligence in our platform may result in reputational harm, liability or affect our results of operations.
- Real or perceived errors, failures, vulnerabilities, or bugs in our platform could harm our business and results of operations.

- If we are unable to successfully refresh or update our source code or other aspects of our platform or detect and adequately address technological deficiencies in a timely and adequate manner, our competitive position could be negatively affected.
- From time to time, we may become defendants in legal proceedings for which we are unable to assess our exposure and which could become significant liabilities in the event of an adverse judgment.
- Negative publicity and sharing of information through social media could result in damage to the Company's reputation and its business may suffer as a result.
- Any failure to offer high-quality and continuous customer support may harm our relationships with our customers and our results of operations.
- Incorrect or improper use of our solutions or our failure to properly train customers on how to use our solutions could result in customer dissatisfaction and negatively affect our business.
- The Company is impacted by rising inflationary pressures.
- We might require additional capital to support our growth, and this capital might not be available on acceptable terms, if at all.
- Our business is subject to a variety of international laws, including export and import controls and anti-corruption laws and regulations, that could subject us to claims, increase the cost of operations, impair our ability to compete in international markets, or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws.
- Trade wars and changes in international trade law and policies may have a material adverse effect on our business, financial condition and results of operations.
- Our business could be adversely impacted by changes in internet access for our users or laws specifically governing the internet.
- It may be difficult or impossible for investors to enforce judgements against foreign subsidiaries and non-resident directors or officers of the Company.
- Our international operations subject us to potentially adverse tax consequences.
- We may have exposure to greater than anticipated tax liabilities and may be affected by changes in tax laws or interpretations, any of which could adversely impact our results of operations.
- Our results of operations may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.
- We may not be able to utilize a significant portion of our net operating loss, which could adversely affect our potential profitability.
- The nature of our business requires the application of complex revenue and expense recognition rules, and any significant changes in current rules could affect our financial statements and results of operations.
- If our judgments or estimates relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors, resulting in a decline in our Subordinate Voting Share price.
- If we fail to maintain an effective system of internal controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.
- Our By-Laws provide that any derivative actions, actions relating to breach of fiduciary duties and other actions asserting a claim relating to relationships among us, our affiliates and their respective shareholders, directors and/or officers are required to be litigated in Canada, which could limit shareholders' ability to obtain a favourable judicial forum for disputes with us.

- We incur significant costs and there are significant demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our business, financial condition, and results of operations.
- Increased focus on environment, social, governance (“**ESG**”) responsibility and disclosures may have adverse impacts on our business.
- Our financial condition may be adversely affected by geopolitical events.
- The Company has a certain degree of concentration of customers and customer sectors.
- The effort, time and expense associated with switching from competitors’ software, products and services to that of the Company’s may limit the Company’s growth.
- The Company’s holding company structure makes it dependent on the operations of its subsidiaries.
- Risks related to economic and health events, including COVID-19.

These risks are described in further detail in the section entitled “*Risk Factors*” in our AIF for Fiscal 2023.