Condensed Consolidated Interim Financial Statements
(In U.S. dollars)

D2L INC.

For the three and six months ended July 31, 2023 and 2022
(Unaudited)

D2L INC.

Condensed Consolidated Interim Statements of Financial Position
(In U.S. dollars)

As at July 31, 2023 and January 31, 2023
(Unaudited)

	July 31, 2023	January 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 110,271,362	$ 110,732,236
Trade and other receivables (note 3)	29,358,472	20,894,794
Uninvoiced revenue	2,789,904	2,107,015
Prepaid expenses	6,655,026	8,183,390
Deferred commissions	5,097,379	4,487,043
	154,172,143	146,404,478
Non-current assets:		
Other receivables (note 3)	—	193,036
Prepaid expenses	210,675	122,469
Deferred income taxes	306,079	189,178
Right-of-use assets	10,847,680	11,205,371
Property and equipment	7,764,280	4,287,095
Deferred commissions	7,781,294	6,849,779
Intangible assets	839,331	288,099
Goodwill (note 4)	10,451,860	7,070,432
Total assets	$ 192,373,342	$ 176,609,937
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 20,846,926	$ 23,450,767
Deferred revenue	101,207,945	85,662,830
Lease liabilities	1,513,461	1,127,600
	123,568,332	110,241,197
Non-current liabilities:		
Deferred income taxes	446,876	398,906
Accounts payable and accrued liabilities	302,333	-
Lease liabilities	11,865,574	11,878,556
	12,614,783	12,277,462
	136,183,115	122,518,659
Shareholders' equity:		
Share capital (note 6)	361,304,174	357,639,824
Additional paid-in capital	47,700,966	46,084,161
Accumulated other comprehensive loss	(4,466,506)	(5,001,805)
Deficit	(348,348,407)	(344,630,902)
	56,190,227	54,091,278
Related party transactions (note 9)		
Total liabilities and shareholders' equity	$ 192,373,342	$ 176,609,937

See accompanying notes to the condensed consolidated interim financial statements.

On behalf of the Board of Directors:

(signed) John Baker, Director

(signed) J. Ian Giffen, Director

D2L INC.

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

For the three and six months ended July 31, 2023 and 2022
(Unaudited)

	Three months ended July 31		Six months ended July 31	
	2023	2022	2023	2022
Revenue:				
Subscription and support	$ 39,405,679	$ 35,817,285	$ 78,595,340	$ 71,583,788
Professional services and other	5,064,462	5,356,142	10,102,740	11,459,723
	44,470,141	41,173,427	88,698,080	83,043,511
Cost of revenue:				
Subscription and support	10,852,459	11,403,524	22,093,199	22,842,152
Professional services and other	3,936,514	3,184,484	7,043,818	7,262,849
	14,788,973	14,588,008	29,137,017	30,105,001
Gross profit	29,681,168	26,585,419	59,561,063	52,938,510
Expenses:				
Sales and marketing	14,961,079	14,021,773	27,401,746	27,078,863
Research and development	12,519,168	10,450,798	23,664,521	21,735,965
General and administrative	7,312,207	6,578,462	13,501,710	12,985,502
	34,792,454	31,051,033	64,567,977	61,800,330
Loss from operations	(5,111,286)	(4,465,614)	(5,006,914)	(8,861,820)
Interest and other income (expenses):				
Interest expense	(142,866)	(166,257)	(298,874)	(403,857)
Interest income	840,405	156,835	1,716,512	175,081
Other income (expense)	(211)	-	15,252	-
Foreign exchange gain (loss)	(364,693)	(150,140)	65,479	(178,358)
	332,635	(159,562)	1,498,369	(407,134)
Loss before income taxes	(4,778,651)	(4,625,176)	(3,508,545)	(9,268,954)
Income taxes (recovery):				
Current	316,769	165,580	391,411	355,096
Deferred	(267,464)	12,616	(182,451)	(58,015)
	49,305	178,196	208,960	297,081
Loss for the period	(4,827,956)	(4,803,372)	(3,717,505)	(9,566,035)
Other comprehensive gain (loss):				
Foreign currency translation gain (loss)	746,510	(146,590)	535,299	(200,255)
Comprehensive loss	$ (4,081,446)	$ (4,949,962)	$ (3,182,206)	$ (9,766,290)
Loss per share – basic (note 7)	$ (0.09)	$ (0.09)	$ (0.07)	$ (0.18)
Loss per share – diluted (note 7)	(0.09)	(0.09)	(0.07)	(0.18)
Weighted average number of common shares – basic (note 7)	53,430,984	53,004,320	53,328,052	52,996,253
Weighted average number of common shares – diluted (note 7)	53,430,984	53,004,320	53,328,052	52,996,253

See accompanying notes to the condensed consolidated interim financial statements.

D2L INC.

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

For the six months ended July 31, 2023 and 2022
(Unaudited)

	Share Capital		Additional paid-in	Accumulated other	Deficit	Total
	Shares	Amount	capital	comprehensive loss		
Balance, January 31, 2023	53,146,530	$ 357,639,824	$ 46,084,161	$ (5,001,805)	$ (344,630,902)	$ 54,091,278
Issuance of Subordinate Voting Shares on exercise of options	301,494	2,702,550	(1,146,774)	—	—	1,555,776
Issuance of Subordinate Voting Shares on settlement of restricted share units	209,695	961,800	(2,405,427)	—	—	(1,443,627)
Stock-based compensation (note 8)	—	—	5,169,006	—	—	5,169,006
Other comprehensive gain (loss)	—	—	—	535,299	—	535,299
Loss for the period	—	—	—	—	(3,717,505)	(3,717,505)
Balance, July 31, 2023	53,657,719	$ 361,304,174	$ 47,700,966	$ (4,466,506)	$ (348,348,407)	$ 56,190,227
Balance, January 31, 2022	52,912,502	$ 354,277,986	$ 41,686,794	$ (3,330,708)	$ (326,254,177)	$ 66,379,895
Issuance of Subordinate Voting Shares on exercise of options	120,224	994,958	(368,690)	—	—	626,268
Stock-based compensation (note 8)	—	—	3,643,871	—	—	3,643,871
Other comprehensive loss	—	—	—	(200,255)	—	(200,255)
Loss for the period	—	—	—	—	(9,566,035)	(9,566,035)
Balance, July 31, 2022	53,032,726	$ 355,272,944	$ 44,961,975	$ (3,530,963)	$ (335,820,212)	$ 60,883,744

See accompanying notes to the condensed consolidated interim financial statements.

D2L INC.

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

For the six months ended July 31, 2023 and 2022
(Unaudited)

	2023	2022
Operating activities:		
Loss for the period	$(3,717,505)	$ (9,566,035)
Items not involving cash:		
Depreciation of property and equipment	721,635	938,887
Depreciation of right-of-use assets	643,910	1,101,355
Amortization of intangible assets	32,572	208,472
Gain on disposal of property and equipment	(15,670)	—
Stock-based compensation (note 8)	5,169,006	3,643,871
Net interest expense (income)	(1,417,638)	228,776
Income tax expense	208,960	297,081
Changes in operating assets and liabilities:		
Trade and other receivables	(7,434,422)	(6,472,931)
Uninvoiced revenue	(615,095)	(115,215)
Prepaid expenses	1,573,388	505,606
Deferred commissions	(1,331,109)	(266,499)
Accounts payable and accrued liabilities	(4,182,827)	(4,129,872)
Deferred revenue	14,936,043	14,467,740
Right-of-use assets and lease liabilities	-	133,336
Interest received	1,717,429	175,081
Interest paid	-	(75,052)
Income taxes paid	(435,663)	(147,493)
Cash flows from operating activities	5,853,014	927,108
Financing activities:		
Payment of lease liabilities	(262,024)	(1,113,960)
Proceeds from exercise of stock options	1,555,776	626,268
Taxes paid on settlement of restricted share units	(1,443,627)	—
Cash flows used in financing activities	(149,875)	(487,692)
Investing activities:		
Purchase of property and equipment	(4,103,826)	(1,113,301)
Proceeds from disposal of property and equipment	15,670	—
Acquisition of business, net of cash acquired (note 12)	(2,766,284)	—
Cash flows used in investing activities	(6,854,440)	(1,113,301)
Effect of exchange rate changes on cash and cash equivalents	690,427	(516,540)
Decrease in cash and cash equivalents	(460,874)	(1,190,425)
Cash and cash equivalents, beginning of period	110,732,236	114,675,495
Cash and cash equivalents, end of period	110,271,362	113,485,070

See accompanying notes to the condensed consolidated interim financial statements.

D2L Inc. was incorporated on January 2, 2011 under the laws of Ontario, Canada and continued under the Canadian Business Corporations Act, effective June 20, 2014. The address of the Company's head office is 137 Glasgow Street, Suite 560, Kitchener, ON, Canada, N2G 4X8. D2L Inc. and its subsidiaries (the "Company" or "D2L") provide cloud-based learning software for higher education institutions, kindergarten to grade 12 (K-12) schools and districts, and private sector enterprises.

1. Basis of presentation:

(a) Statement of compliance and consolidation:

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended January 31, 2023 (the “Annual Financial Statements”). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual audited consolidated financial statements as at and for the year ended January 31, 2023.

The Interim Financial Statements were authorized for issuance by the Board of Directors on September 6, 2023.

(b) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of (i) D2L Inc.; (ii) its wholly owned subsidiaries: D2L Corporation, D2L Ltd., D2L Europe Ltd., D2L EU B.V., D2L Australia Pty Ltd., D2L Asia Pte Ltd., D2L Brasil Solucoes de Tecnologia para Educacao Ltda, D2L Commerce Inc., Connected Shopping Ltd. acquired on May 9, 2023; and (iii) Desire2Learn LLC prior to its dissolution on November 10, 2022. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation and are not disclosed.

1. Basis of presentation (continued):

(c) Seasonality of interim operations:

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

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

(d) Use of estimates and judgments:

The preparation of the Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended January 31, 2023, except for the following:

<u>Fair value of acquired Intangible assets</u>

The Company estimates the fair value of customer relationships acquired in a business combination based on the present value of expected future cash flows. The Company estimates the fair value of software acquired in a business combination based on the 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 costs required to replace the acquired software intangible asset, assumptions related to the projected future revenues attributable to acquired customer relationships, attrition rates, economic useful lives and discount rates.

<u>Fair value of contingent consideration</u>

The Company measures the contingent consideration payable in a business combination at the estimated fair value upon initial measurement and at each subsequent reporting date. The fair value is estimated based on the range of possible outcomes and the Company's assessment of the likelihood of each outcome.

2. Material accounting policies:

The accounting policies followed in these Interim Financial Statements are consistent with the accounting policies outlined in note 2 of the Company's annual audited consolidated financial statements as at and for the year ended January 31, 2023, except for the following:

Intangible assets

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

Domains	Indefinite life
Patents	Remaining life of patent
Software	5 years
Customer relationship	8 years

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

The amendments distinguish between accounting policies and accounting estimates by introducing a new definition for accounting estimates, clarifying that there are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments have been applied for annual periods beginning on February 1, 2023. The adoption of the amendments to this standard did not have a material impact on these Interim Financial Statements.

Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2

The amendments are intended to help companies provide useful accounting policy disclosures. The amendments:

- require companies to disclose their material accounting policies rather than their significant accounting policies;

(In U.S. dollars)

2. Material accounting policies (continued):

- clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

- clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments have been applied for annual periods beginning on February 1, 2023. The adoption of the amendments to this standard did not have a material impact on these Interim Financial Statements.

3. Trade and other receivables:

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

	July 31, 2023	January 31, 2023
Trade receivables	$ 26,890,174	$ 18,316,886
Allowance for doubtful accounts	(332,476)	(276,329)
Net trade receivables	26,557,698	18,040,557
Other receivables	2,800,774	3,047,273
Trade and other receivables	$ 29,358,472	$ 21,087,830
Comprised of:		
Current	$ 29,358,472	$ 20,894,794
Non-current	—	193,036

As at July 31, 2023, one customer accounted for more than 10% of the net trade receivables, representing 11% of the balance (January 31, 2023 - no customers accounted for more than 10% of net trade receivables). Subsequent to July 31, 2023, the balance from this customer was collected.

4. Goodwill:

	July 31, 2023	January 31, 2023
Balance, beginning of year	$ 7,070,432	$ 7,474,647
Acquisition of Connected Shopping Ltd. (note 12)	3,179,710	—
Effects of movement in exchange rates	201,718	(404,215)
Balance, end of period	$ 10,451,860	$ 7,070,432

5. Financial instruments:

Fair value of financial instruments:

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

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

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

The fair values of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities, approximate their carrying values due to their short-term nature. There were no changes in the categorization of financial instruments in the current or prior periods of these Interim Financial Statements.

The Company measures the fair value of contingent consideration payable in a business combination at the estimated fair value upon initial measurement and at each subsequent reporting date. Key unobservable inputs include estimated customer churn values and discount rates applied. The fair value of the contingent consideration approximates the carrying value as at July 31, 2023.

6. Share capital:

(a) Authorized share capital as at July 31, 2023 and January 31, 2023:

- Unlimited number of Subordinate Voting Shares, entitled to one vote per share, non-cumulative participating dividend rights, not convertible into any other class of shares

- Unlimited number of Multiple Voting Shares, entitled to 10 votes per share, non-cumulative participating dividend rates, convertible into Subordinate Voting Shares at the option of the holder and automatically in certain situations, subject to certain restrictions

- Unlimited number of preferred shares, issuable in series. The Board of Directors may, subject to certain restrictions, fix the number of preferred shares in a series and determine the designation of certain rights, including but not limited to: any right to receive dividends; any terms or conditions of redemption

(In U.S. dollars)

6. Share capital (continued):

or purchase; any conversion rights; any retraction rights; and any rights on the Company's liquidation, dilution and winding up.

(b) Issued:

As at July 31, 2023, the Company had 26,267,131 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

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

7. Loss per share:

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

	Three months ended July 31		Six months ended July 31	
	2023	2022	2023	2022
Loss for the period	$ (4,827,956)	$ (4,803,372)	$ (3,717,505)	$ (9,566,035)
Weighted average number of outstanding shares	53,430,984	53,004,320	53,328,052	52,996,253
Loss per share – basic and dilutive	$ (0.09)	$ (0.09)	$ (0.07)	$ (0.18)

The Company has three categories of potentially dilutive securities: stock options, restricted stock units ("RSUs") and deferred share units ("DSUs").

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

(In U.S. dollars)

8. Stock-based compensation:

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

	Three months ended July 31 2023	Three months ended July 31 2022	Six months ended July 31 2023	Six months ended July 31 2022
Cost of subscription and support	$ 94,596	$ 57,400	$ 145,647	$ 104,169
Cost of professional services and other	77,248	28,425	137,139	51,934
Sales and marketing	562,453	268,591	894,736	675,328
Research and development	915,212	638,555	1,486,837	1,184,258
General and administrative	1,445,274	1,000,847	2,504,647	1,628,182
	$ 3,094,783	$ 1,993,818	$ 5,169,006	$ 3,643,871

(a) Legacy stock option plan:

During the three and six months ended July 31, 2023, the Company recognized stock-based compensation expense of $108,291 and $226,960 respectively (2022 – $154,902 and $483,805, respectively) related to stock options. A summary of stock option activity for the six months ended July 31, 2023 is presented below:

	Number of stock options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 31, 2023	2,991,307	$ 5.99	4.77
Options forfeited	(189,877)	5.68	–
Options exercised	(301,494)	5.16	–
Balance, July 31, 2023	2,499,936	$ 6.11	4.71
Exercisable, end of period	2,062,381	$ 5.59	4.18

(In U.S. dollars)

8. Stock-based compensation (continued):

A summary of stock option activity for the year ended January 31, 2023 is presented below:

	Number of stock options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 31, 2022	7,547,243	$ 6.80	3.37
Options forfeited	(4,435,712)	7.40	–
Options exercised	(120,224)	5.21	–
Balance, January 31, 2023	2,991,307	$ 5.99	4.77
Exercisable, end of year	2,448,051	$ 5.52	4.15

Options outstanding and options exercisable as at July 31, 2023 by range of exercise price are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options
$5.00 - $6.00	$ 5.16	1,869,623	3.80	$ 5.16	1,758,117
$6.01 - $7.00	6.50	321,101	7.19	6.50	185,638
$7.01 - $8.00	7.44	4,929	0.93	7.44	4,929
$8.01 - $9.00	8.48	75,369	7.34	8.48	39,968
$9.01 - $10.00	9.55	68,914	7.58	9.55	33,729
$10.01 - $14.00	13.77	160,000	8.02	13.77	40,000
	$ 6.11	2,499,936	4.71	$ 5.59	2,062,381

(In U.S. dollars)

8. Stock-based compensation (continued):

(b) Long Term Incentive Plan:

During the three and six months ended July 31, 2023, the Company recognized stock-based compensation expense of $2,689,135 and $4,484,662 respectively (2022 – $1,755,519 and $3,061,669, respectively) related to RSUs.

A summary of RSU activity for the period ended July 31, 2023 is presented below:

	Number of RSUs outstanding	Weighted average grant date fair value per RSU (in CAD)
Balance, January 31, 2023	2,176,061	$ 9.13
RSUs granted	1,514,517	7.98
RSUs forfeited	(35,360)	9.29
RSUs settled	(436,139)	7.31
Balance, July 31, 2023	3,219,079	$ 8.84

A summary of RSU activity for the year ended January 31, 2023 is presented below:

	Number of RSUs outstanding	Weighted average grant date fair value per RSU (in CAD)
Balance, January 31, 2022	843,275	$ 16.69
RSUs granted	1,857,424	7.09
RSUs forfeited	(283,456)	11.76
RSUs settled	(241,182)	16.68
Balance, January 31, 2023	2,176,061	$ 9.13

(c) Deferred Share Unit Plan:

During the three and six months ended July 31, 2023, the Company recognized stock-based compensation expense of $297,357 and $457,384 respectively (2022 – $83,397 and $98,397, respectively) related to DSUs.

(In U.S. dollars)

8. Stock-based compensation (continued):

A summary of DSU activity is presented below:

	Number of DSUs outstanding	Weighted average grant date fair value per DSU (in CAD)
Balance, January 31, 2023	174,599	$ 6.97
DSUs granted	150,818	8.28
DSUs forfeited	—	—
DSUs settled	—	—
Balance, July 31, 2023	325,417	$ 7.57
Vested but not yet settled, July 31, 2023	117,681	$ 7.16

A summary of DSU activity for the year ended January 31, 2023 is presented below:

	Number of DSUs outstanding	Weighted average grant date fair value per DSU (in CAD)
Balance, January 31, 2022	1,283	$ 14.48
DSUs granted	173,316	$ 6.91
DSUs forfeited	—	—
DSUs settled	—	—
Balance, January 31, 2023	174,599	$ 6.97
Vested but not yet settled, January 31, 2023	12,216	$ 8.23

9. Related party transactions:

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

(a) The Company recognized revenue of $30,610 and $52,849 for the three and six months ended July 31, 2023, respectively (2022 - $23,040 and $46,447, respectively) related to service agreements with Virtual High School Ontario, a corporation controlled by family members of John Baker, the Company's Chief Executive Officer("CEO"), and in which John Baker had a minority interest and continues to have other business dealings. As at July 31, 2023, the Company had $9,157 (January 31, 2023 – nil) in trade receivables from this related party.

(In U.S. dollars)

9. Related party transactions (continued):

(b) On October 15, 2021, D2L Corporation, a subsidiary of the Company, entered into a lease agreement with Catalyst 137 Kitchener L.P ("Catalyst") for office space in Kitchener, Ontario (the "Kitchener Lease"). 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 term of the Kitchener Lease is 11.5 years, which commenced on February 1, 2022. The Company recognized lease-related expenses, including right-of-use asset amortization, interest expense and common area maintenance fees, of $508,484 and $999,878 for the three and six months ended July 31, 2023, respectively (2022 - $435,242 and $868,285, respectively).

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

	CAD	USD
August 1, 2023 – January 31, 2024	$ 873,359	$ 660,307
February 1, 2024 – January 31, 2025	1,783,476	1,348,406
February 1, 2025 – January 31, 2026	1,858,854	1,405,396
February 1, 2026 – January 31, 2027	1,937,954	1,465,200
February 1, 2027 – July 31, 2033	14,756,366	11,156,625
Total undiscounted commitment	$ 21,210,009	$ 16,035,934

10. Employee benefits:

The total employee compensation comprising of salaries and benefits, excluding grants and tax credits, for the three and six months ended July 31, 2023 was $29,790,990 and $57,085,208, respectively (2022 - $26,889,938 and $54,097,865, respectively).

The Company has a defined contribution pension plan for its eligible employees. The total cost recognized for the Company's defined contribution plan for the three and six months ended July 31, 2023 was $937,162 and $1,521,797, respectively (2022 - $553,682 and $1,114,736, respectively).

11. Operating segments:

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

(In U.S. dollars)

11. Operating segments (continued):

Geographic information:

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

	Three months ended July 31 2023	2022	Six months ended July 31 2023	2022
Canada	$ 10,587,058	$ 11,001,132	$ 21,843,935	$ 21,361,764
United States	25,401,761	23,244,297	50,286,140	47,779,855
Rest of world	8,481,322	6,927,998	16,568,005	13,901,892
Total	$ 44,470,141	$ 41,173,427	$ 88,698,080	$ 83,043,511

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

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

Property and equipment:

	July 31, 2023	January 31, 2023
Canada	$ 7,513,730	$ 4,057,800
United States	103,148	94,291
Rest of world	147,402	135,004
Total	$ 7,764,280	$ 4,287,095

Right-of-use-assets

	July 31, 2023	January 31, 2023
Canada	$ 10,847,680	$ 11,161,334
Rest of world	-	44,037
Total	$ 10,847,680	$ 11,205,371

(In U.S. dollars)

11. Operating segments (continued):

Intangible assets:

	July 31, 2023	January 31, 2023
Canada	$ 284,409	$ 288,099
Rest of world	554,922	-
Total	$ 839,331	$ 288,099

12. Acquisition of Connected Shopping Ltd.:

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

The acquisition was accounted for as a business combination under the acquisition method. The purchase price of $3,548,052 consisted of $2,921,851 cash paid on closing and estimated contingent consideration with a fair value of $599,305, which has a potential maximum contractual payment of $690,000. There is also estimated additional cash that will be paid by the Company due to a post-closing working capital adjustment amounting to $26,896. The contingent consideration is payable to the selling shareholders upon achieving certain customer churn targets by the first and second anniversary dates following the acquisition.

The Company has prepared a preliminary purchase price allocation of the assets acquired and the liabilities assumed of Connected Shopping based on management's best estimates of fair value. The final purchase price allocation may vary based on final appraisals, valuations and analyses of the fair value of the acquired assets and assumed liabilities:

Cash	$ 155,567
Trade and other receivables	380,119
Prepaid expenses	210,810
Property and equipment	21,995
Intangible assets:	
Customer relationship	249,000
Software	302,500
Less:	
Current liabilities	(838,279)
Non-current liabilities	(113,370)
	$ 368,342
Goodwill	3,179,710
Expected fair value of net assets acquired	$ 3,548,052

12. Acquisition of Connected Shopping Ltd. (continued):

Accounts receivable comprise gross total contractual amounts due of $96,213 all of which have been collected in full.

Amortization of the customer relationships and proprietary software that was acquired is calculated using the straight-line method over their respective useful lives of eight and five years, respectively.

The goodwill recognized upon acquisition is attributable to expected synergies in adding Course Merchant to the Company's product offerings, and the estimated fair value of an assembled workforce. The entire goodwill balance is not deductible for tax purposes.

During the three and six months ended July 31, 2023, the Company incurred acquisition related costs of $75,809 which are recorded within General and Administrative expenses.

There are payments up to $690,000 in the form of post-combination compensation which are subject to the continued employment of specific employees, on the first and second-anniversary dates following the acquisition in equal installments of $345,000. During the three and six months ended July 31, 2023, post-combination compensation was recorded within general and administration expense in the Condensed Consolidated Interim Statements of Comprehensive Income (Loss).

Since the date of acquisition, the acquisition had no significant impact on revenue and net earnings for the three and six months ended July 31, 2023. Pro forma results of operations for this acquisition have not been presented because they are not material to the Company's consolidated results of operations.