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

D2L INC.

Three months ended April 30, 2024 and 2023
(Unaudited)

D2L INC.

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

As at April 30, 2024 and January 31, 2024
(Unaudited)

	April 30, 2024	January 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 98,851,147	$ 116,943,499
Trade and other receivables (note 3)	25,287,892	23,025,690
Uninvoiced revenue	3,747,084	3,971,861
Prepaid expenses	8,232,470	10,517,226
Deferred commissions	5,346,539	5,334,864
	141,465,132	159,793,140
Non-current assets:		
Other receivables (note 3)	517,782	537,056
Prepaid expenses	109,989	119,872
Deferred income taxes	520,153	529,674
Right-of-use assets	8,963,572	8,774,960
Property and equipment	8,009,367	8,427,734
Deferred commissions	7,757,724	7,730,724
Intangible assets	732,871	770,707
Goodwill	10,274,106	10,440,091
Total assets	$ 178,350,696	$ 197,123,958
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 25,973,683	$ 32,635,926
Deferred revenue	80,973,649	93,727,368
Lease liabilities	1,289,542	1,002,464
Contingent consideration (note 11)	256,946	271,479
	108,493,820	127,637,237
Non-current liabilities:		
Deferred income taxes	557,168	587,075
Lease liabilities	11,518,505	11,707,534
Contingent consideration (note 11)	312,670	311,839
	12,388,343	12,606,448
	120,882,163	140,243,685
Shareholders' equity:		
Share capital (note 5)	366,514,193	364,830,884
Additional paid-in capital	46,329,301	47,485,107
Accumulated other comprehensive loss	(5,794,007)	(4,998,317)
Deficit	(349,580,954)	(350,437,401)
	57,468,533	56,880,273
Related party transactions (note 8)		
Total liabilities and shareholders' equity	$ 178,350,696	$ 197,123,958

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 (Loss) Income
(In U.S. dollars)

For the three months ended April 30, 2024 and 2023
(Unaudited)

	2024	2023
Revenue:		
Subscription and support	$ 42,953,475	$ 39,189,661
Professional services and other	5,541,417	5,038,278
	48,494,892	44,227,939
Cost of revenue:		
Subscription and support	11,946,610	11,240,740
Professional services and other	3,870,868	3,107,304
	15,817,478	14,348,044
Gross profit	32,677,414	29,879,895
Expenses:		
Sales and marketing	12,904,939	12,440,667
Research and development	12,290,771	11,145,353
General and administrative	8,099,431	6,189,503
	33,295,141	29,775,523
(Loss) income from operations	(617,727)	104,372
Interest and other income (expenses):		
Interest expense	(160,660)	(156,008)
Interest income	1,084,045	876,107
Other income	59,476	15,463
Foreign exchange gain	230,781	430,172
	1,213,642	1,165,734
Income before income taxes	595,915	1,270,106
Income taxes (recovery):		
Current	50,745	74,642
Deferred	(27,096)	85,013
	23,649	159,655
Income for the period	572,266	1,110,451
Other comprehensive loss:		
Foreign currency translation loss	(795,690)	(211,211)
Comprehensive (Loss) income	$ (223,424)	$ 899,240
Earnings per share – basic (note 6)	$ 0.01	$ 0.02
Earnings per share – diluted (note 6)	0.01	0.02
Weighted average number of common shares – basic (note 6)	54,015,602	53,224,007
Weighted average number of common shares – diluted (note 6)	55,723,344	54,752,509

See accompanying notes to the condensed consolidated interim financial statements.

D2L INC.

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

For the three months ended April 30, 2024 and 2023
(Unaudited)

	Share Capital Shares	Share Capital Amount	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
Balance, January 31, 2024	53,978,085	$ 364,830,884	$ 47,485,107	$ (4,998,317)	$ (350,437,401)	$ 56,880,273
Issuance of Subordinate Voting Shares on exercise of options	206,299	1,739,261	(900,761)	–	–	838,500
Issuance of Subordinate Voting Shares on settlement of restricted share units	194,483	965,967	(2,587,799)	–	–	(1,621,832)
Stock-based compensation (note 7)	–	–	2,332,754	–	–	2,332,754
Repurchase of share capital for cancellation under NCIB (note 5)	(131,380)	(1,021,919)	–	–	–	(1,021,919)
Change in share repurchase commitment under ASPP (note 5)	–	–	–	–	284,181	284,181
Other comprehensive loss	–	–	–	(795,690)	–	(795,690)
Income for the period	–	–	–	–	572,266	572,266
Balance, April 30, 2024	54,247,487	$ 366,514,193	$ 46,329,301	$ (5,794,007)	$ (349,580,954)	$ 57,468,533
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	128,073	1,111,373	(450,449)	–	–	660,924
Issuance of Subordinate Voting Shares on settlement of restricted share units	24,097	297,619	(397,164)	–	–	(99,545)
Stock-based compensation (note 7)	–	–	2,074,223	–	–	2,074,223
Other comprehensive loss	–	–	–	(211,211)	–	(211,211)
Income for the period	–	–	–	–	1,110,451	1,110,451
Balance, April 30, 2023	53,298,700	$ 359,048,816	$ 47,310,771	$ (5,213,016)	$ (343,520,451)	$ 57,626,120

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 three months ended April 30, 2024 and 2023
(Unaudited)

	2024	2023
Operating activities:		
Income for the period	$ 572,266	$ 1,110,451
Items not involving cash:		
Depreciation of property and equipment	436,493	291,732
Depreciation of right-of-use assets	286,692	321,071
Amortization of intangible assets	27,967	4,376
Gain on disposal of property and equipment	(45,803)	(15,463)
Stock-based compensation (note 7)	2,332,754	2,074,223
Net interest (income) expense	(923,385)	(720,099)
Income tax expense	23,649	159,655
Changes in operating assets and liabilities:		
Trade and other receivables	(2,528,272)	(3,582,301)
Uninvoiced revenue	168,438	(807,077)
Prepaid expenses	2,116,314	448,517
Deferred commissions	(191,409)	(231,019)
Accounts payable and accrued liabilities	(6,008,716)	(5,551,696)
Deferred revenue	(12,109,523)	(11,383,125)
Right-of-use assets and lease liabilities	(43,743)	—
Interest received	1,077,425	876,107
Interest paid	(12,633)	(7,522)
Income taxes paid	(4,239)	(22,509)
Cash flows used in operating activities	(14,825,725)	(17,034,679)
Financing activities:		
Payment of lease liabilities	(405,727)	(132,994)
Proceeds from exercise of stock options	838,500	660,924
Taxes paid on settlement of restricted share units	(1,621,832)	(99,545)
Repurchase of share capital for cancellation under NCIB (note 5)	(1,021,919)	—
Cash flows (used in) from financing activities	(2,210,978)	428,385
Investing activities:		
Purchase of property and equipment	(171,869)	(1,664,474)
Proceeds from disposal of property and equipment	45,803	15,463
Cash flows used in investing activities	(126,066)	(1,649,011)
Effect of exchange rate changes on cash and cash equivalents	(929,583)	(384,923)
Decrease in cash and cash equivalents	(18,092,352)	(18,640,228)
Cash and cash equivalents, beginning of period	116,943,499	110,732,236
Cash and cash equivalents, end of period	$ 98,851,147	$ 92,092,008

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:

These unaudited condensed consolidated interim financial statements (these “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 IFRS Accounting Standards (“IFRS”) and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended January 31, 2024 (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, 2024.

These Interim Financial Statements were authorized for issuance by the Board of Directors on June 4, 2024.

(b) Basis of consolidation:

These 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 Soluções de Tecnologia para Educação Ltda., D2L Commerce Inc., Connected Shopping Ltd, D2L India Private Limited, D2L Sistemas de Aprendizaje Innovadores, Sociedad De Responsabilidad Limitada De Capital Variable. 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 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 these 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, 2024.

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, 2024.

There are no updates to information provided in the Annual Financial Statements about the standards issued but not yet effective that could potentially impact the Company except for the following:

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

(In U.S. dollars)

3. Trade and other receivables:

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

	April 30, 2024	January 31, 2024
Trade receivables	$ 23,365,181	$ 20,441,839
Allowance for doubtful accounts	(317,058)	(310,395)
Net trade receivables	23,048,123	20,131,444
Other receivables	2,757,551	3,431,302
Trade and other receivables	$ 25,805,674	$ 23,562,746
Comprised of:		
Current	$ 25,287,892	$ 23,025,690
Non-current	517,782	537,056

As at April 30, 2024, one customer accounted for more than 10% of the net trade receivables (January 31, 2024 - one customer accounted for more than 10% of net trade receivables).

Other receivables are comprised primarily of income tax receivables, sublease receivables and government grant receivables. All receivables are classified as current for the period ended April 30, 2024, with the exception of a portion of the sublease receivables classified as non-current, in line with the timing of contractual sublease payments. The Company assesses the need for an allowance against other receivables at each reporting date. In each period presented, the Company has concluded that the other receivables balances are collectible and accordingly have not recorded an allowance.

4. 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 carrying values of cash and cash equivalents, trade and other receivables, uninvoiced revenue and accounts payable and accrued liabilities, approximate their fair values due to their short-term nature. Contingent consideration is classified as a Level 3 financial instrument as the inputs are not observable and there is no market-based activity. The fair value of the contingent consideration has been calculated based on expected future revenue from existing customers and discount rates and was $599,305 as at the acquisition date. At January 31, 2024 and April 30, 2024, management determined that the fair values of the contingent consideration were $583,318 and $569,616, respectively, resulting in other income of $13,702 recognized for the three months ended April 30, 2024.

There were no changes in the categorization of financial instruments in the current or prior periods of these Interim Financial Statements.

5. Share capital:

(a) Authorized share capital as at April 30, 2024 and January 31, 2024:

- Unlimited number of Subordinate Voting Shares, entitled to one vote per share, non-cumulative participating dividend rights, not convertible into any other class of shares
- Unlimited number of Multiple Voting Shares, entitled to 10 votes per share, non-cumulative participating dividend rates, convertible into Subordinate Voting Shares at the option of the holder and automatically in certain situations, subject to certain restrictions
- Unlimited number of preferred shares, issuable in series. The Board of Directors may, subject to certain restrictions, fix the number of preferred shares in a series and determine the designation of certain rights, including but not limited to: any right to receive dividends; any terms or conditions of redemption or purchase; any conversion rights; any retraction rights; and any rights on the Company's liquidation, dilution and winding up.

(b) Issued:

As at April 30, 2024, the Company had 26,856,899 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

As at January 31, 2024, the Company had 26,587,497 Subordinate Voting Shares and 27,390,588 Multiple Voting Shares issued and outstanding. No preferred shares were issued and outstanding.

(c) Subordinate Voting Shares repurchase for cancellation under normal course issuer bid:

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

In connection with the NCIB, the Company entered into an automatic share purchase plan ("ASPP") with its designated broker for the purpose of allowing the broker, on behalf of the Company, to purchase the Company's Subordinate Voting Shares under the NCIB during the Company's self-imposed trading blackout periods. Under the ASPP, the broker is authorized to repurchase Subordinate Voting Shares during blackout periods, without consultation with the Company, on predefined terms, including share

(In U.S. dollars)

5. Share capital (continued):

price, time period and subject to other limitations imposed in advance by the Company and subject to rules and policies of the TSX and applicable securities laws, such as a daily purchase restriction.

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

6. Earnings per share:

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

	April 30, 2024	April 30, 2023
Income for the period	$ 572,266	$ 1,110,451
Weighted average number of outstanding shares – basic	54,015,602	53,224,007
Weighted average number of outstanding shares – dilutive	55,723,344	54,752,509
Earnings per share - basic	$ 0.01	$ 0.02
Earnings per share - dilutive	$ 0.01	$ 0.02

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

(In U.S. dollars)

6. Earnings per share (continued):

For the three months period ended April 30, 2024, 311,173 potentially dilutive instruments have been excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive. For the three months period ended April 30, 2023, 648,153 potentially dilutive instruments have been excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive.

7. Stock-based compensation:

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

	2024	2023
Cost of subscription and support	$ 53,987	$ 51,051
Cost of professional services and other	92,323	59,891
Sales and marketing	232,751	332,283
Research and development	762,263	571,625
General and administrative	1,191,430	1,059,373
	$ 2,332,754	$ 2,074,223

(a) Legacy stock option plan

During the three months ended April 30, 2024, the Company recognized stock-based compensation expense of $43,762 (2023 – $118,669) related to stock options. A summary of stock option activity for the three months ended April 30, 2024 is presented below:

	Number of stock options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 31, 2024	2,103,812	$ 6.25	4.63
Options forfeited	(30,316)	5.81	–
Options exercised	(362,484)	5.16	–
Balance, April 30, 2024	1,711,012	$ 6.49	3.96
Exercisable, end of period	1,473,318	$ 6.05	3.53

(In U.S. dollars)

7. Stock-based compensation (continued):

A summary of stock option activity for the year ended January 31, 2024 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	(282,174)	5.70	–
Options exercised	(605,321)	5.20	–
Balance, January 31, 2024	2,103,812	$ 6.25	4.63
Exercisable, end of year	1,818,345	$ 5.86	4.28

Options outstanding and options exercisable as at April 30, 2024 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	1,134,811	2.67	$ 5.16	1,098,579
$6.01 - $7.00	6.50	277,268	6.05	6.50	203,907
$7.01 - $8.00	7.44	2,324	0.81	7.44	2,324
$8.01 - $9.00	8.48	72,323	6.56	8.48	48,390
$9.01 - $10.00	9.55	64,286	6.80	9.55	40,118
$10.01 - $14.00	13.77	160,000	7.27	13.77	80,000
	$ 6.49	1,711,012	3.96	$ 6.05	1,473,318

(In U.S. dollars)

7. Stock-based compensation (continued):

(b) Long Term Incentive Plan:

During the three months ended April 30, 2024, the Company recognized stock-based compensation expense of $2,044,421 (2023 – $1,795,527) related to RSUs.

A summary of RSU activity for the period ended April 30, 2024 is presented below:

	Number of RSUs outstanding	Weighted average grant date fair value per RSU (in CAD)
Balance, January 31, 2024	2,720,188	$ 8.48
RSUs granted	1,373,261	9.78
RSUs forfeited	(95,241)	8.79
RSUs settled	(423,062)	8.43
Balance, April 30, 2024	3,575,146	$ 8.98
Vested but not yet settled, April 30, 2024	–	–

A summary of RSU activity for the year ended January 31, 2024 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	1,795,789	8.32
RSUs forfeited	(474,737)	8.82
RSUs settled	(776,925)	9.73
Balance, January 31, 2024	2,720,188	$ 8.48
Vested but not yet settled, January 31, 2024	–	–

(In U.S. dollars)

7. Stock-based compensation (continued):

(c) Deferred Share Unit Plan:

During the three months ended April 30, 2024, the Company recognized stock-based compensation expense of $244,571 (2023 – $160,027) related to DSUs.

A summary of DSU activity for the period ended April 30, 2024 is presented below:

	Number of DSUs outstanding	Weighted average grant date fair value per DSU (in CAD)
Balance, January 31, 2024	330,318	$ 7.58
DSUs granted	2,324	8.90
DSUs forfeited	–	–
DSUs settled	–	–
Balance, April 30, 2024	332,642	$ 7.59
Vested but not yet settled, April 30, 2024	145,438	$ 7.15

A summary of DSU activity for the year ended January 31, 2024 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	155,719	8.27
DSUs forfeited	–	–
DSUs settled	–	–
Balance, January 31, 2024	330,318	$ 7.58
Vested but not yet settled, January 31, 2024	143,115	$ 7.12

(In U.S. dollars)

8. 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 $20,516 for the period ended April 30, 2024 (2023 - $22,239) related to service agreements with Virtual High School Ontario ("VHS"), a corporation controlled by family members of John Baker, the Company's Chief Executive Officer ("CEO"), and in which John Baker had a minority interest. As at April 30, 2024, the Company had a nil balance (January 31, 2024 – $10,768) in trade receivables from this related party. The VHS Agreement was renewed on November 23, 2023 for an additional three-year term that ends on December 31, 2026.

(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 $448,473 for the period ended April 30, 2024 (2023 – $491,394).

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

	CAD	USD
May 1, 2024 - January 31, 2025	$ 1,346,796	$ 984,076
February 1, 2025 - January 31, 2026	1,858,854	1,358,225
February 1, 2026 - January 31, 2027	1,937,954	1,416,022
February 1, 2027 - January 31, 2028	2,020,311	1,476,199
February 1, 2028 – July 31, 2033	12,736,055	9,305,968
Total undiscounted commitment	$ 19,899,970	$ 14,540,490

8. Related party transactions (continued):

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

A corporation owned by John Baker, the Company’s CEO, has agreed to purchase the majority ownership of SkillsWave from the Company. The Board of Directors constituted a Special Committee (the “Special Committee”) of independent directors of the Company to assess and advise the Board with respect to the transaction, and oversee its negotiation, as well as to assess possible alternatives. The Special Committee determined that the transaction would be in the best interests of the Company and recommended that the Board approve the entering into of the Letter Agreement, which the Board of Directors approved, with John Baker abstaining and being recused on account of his conflict of interest in the matter.

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

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

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

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

(In U.S. dollars)

9. Employee benefits:

The total employee compensation comprising of salaries and benefits, excluding grants and tax credits, for the three months ended April 30, 2024 was $28,905,177 (2023 - $27,294,218).

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 months ended April 30,2024 was $713,521 (2023 - $584,635).

10. Operating segments:

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

Geographic information:

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

	2024	2023
Canada	$ 12,040,155	$ 11,256,877
United States	27,376,938	24,884,379
Rest of world	9,077,799	8,086,683
Total	$ 48,494,892	$ 44,227,939

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:

(In U.S. dollars)

10. Operating segments (continued):

Property and equipment:

	April 30, 2024	January 31, 2024
Canada	$ 7,826,505	$ 8,216,610
United States	81,359	93,989
Rest of world	101,503	117,135
Total	$ 8,009,367	$ 8,427,734

Right-of-use assets:

	April 30, 2024	January 31, 2024
Canada	$ 8,368,918	$ 8,774,960
Rest of world	594,654	–
Total	$ 8,963,572	$ 8,774,960

Intangible assets:

	April 30, 2024	January 31, 2024
Canada	$ 261,876	$ 270,779
Rest of world	470,995	499,928
Total	$ 732,871	$ 770,707

11. 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 allows the Company to deliver Course Merchant as a part of its own suite of products to address the growing needs of higher education and training organizations worldwide. The operating results of the acquired company have been consolidated into the Company's results subsequent to the acquisition date.

The acquisition was accounted for as a business combination under the acquisition method. The purchase price consisted of initial cash consideration of $2,921,851, post-closing working capital adjustments of $26,896, contingent consideration with a fair value at the date of acquisition of $599,305, and the effective settlement of the pre-existing prepaid balance of $305,413, resulting in total consideration of $3,853,465. Upon revaluation as at April 30, 2024, the liability associated with the contingent consideration decreased by $13,702 from January 31, 2024, in the consolidated statements of financial position, and has a potential

(In U.S. dollars)

11. Acquisition of Connected Shopping Ltd (continued):

maximum contractual payment of $690,000. 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	264,720
Prepaid expenses	210,810
Property and equipment	21,995
Intangible assets:	
Customer relationship	249,000
Software	302,500
Less:	
Accounts payable and accrued liabilities	(294,673)
Deferred revenue	(238,194)
Deferred income taxes	(137,875)
	$ 533,850
Goodwill	3,319,615
Total consideration	$ 3,853,465

There are also 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.

Accounts receivable comprise gross total contractual amounts due of $96,213 all of which had been collected in full in fiscal 2024.

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.

11. Acquisition of Connected Shopping Ltd (continued):

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.

The Company incurred acquisition related costs of $95,997 for the period ended April 30, 2024 (2023 – nil), primarily including post-combination compensation, which is recorded within General and Administrative expenses and Research and Development expenses.