Keypath International

Consolidated Financial Statements
June 30, 2020, 2019 and 2018
(in thousands of US dollars)

Report of Independent Auditors

To the Board of Directors of Keypath International

We have audited the accompanying consolidated financial statements of Keypath International and its subsidiaries (together, the Company), which comprise the consolidated balance sheets as of June 30, 2020, 2019 and 2018, and the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keypath International and its subsidiaries as of June 30, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Oakville, Ontario, Canada
April 21, 2021

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Keypath International

Consolidated Balance Sheets

As at June 30, 2020, 2019 and 2018

(in thousands of US dollars)

	Note	2020 $	2019 $	2018 $
Assets				
Current assets				
Cash		14,331	4,635	2,241
Restricted cash		368	377	397
Accounts receivable, net of allowance	6	6,875	6,034	2,515
Prepaid expenses and other current assets		448	407	494
Total current assets		**22,022**	**11,453**	**5,647**
Non-current assets				
Property and equipment, net	4	1,401	1,423	1,792
Goodwill	5	8,754	8,754	8,754
Amortizable intangible assets, net	5	5,609	4,893	4,889
Right-of-use assets	2	1,600	-	-
Contract acquisition costs	6	1,990	1,487	-
Deferred tax asset	10	1,714	-	-
Other assets		364	168	158
Total non-current assets		**21,432**	**16,725**	**15,593**
Total assets		**43,454**	**28,178**	**21,240**
Liabilities and Shareholders' Deficit				
Current liabilities				
Accounts payable		3,385	2,276	1,287
Accrued expenses		6,813	5,212	4,787
Deferred revenue	6	1,168	376	65
Income taxes	10	722	310	-
Lease liabilities	8	895	-	-
Total current liabilities		**12,983**	**8,174**	**6,139**
Non-current liabilities				
Deferred rent	2	-	870	1,129
Long-term debt	7	9,035	-	-
Lease liabilities	8	1,353		-
Accounts payable and accrued expenses	9	194	-	-
Total non-current liabilities		**10,582**	**870**	**1,129**
Mezzanine equity				
Redeemable non-controlling interests	11	**29,362**	**22,250**	**16,146**
Shareholders' deficit				
Preferred shares	12	16,100	16,100	16,100
Ordinary shares	12	54,085	49,085	31,485
Accumulated deficit		(79,149)	(67,751)	(49,481)
Accumulated other comprehensive loss		(509)	(550)	(278)
Total Keypath International shareholders' deficit		**(9,473)**	**(3,116)**	**(2,174)**
Total liabilities and equity		**43,454**	**28,178**	**21,240**

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

Keypath International

Consolidated Statements of Loss and Comprehensive Loss

For the years ended June 30, 2020, 2019 and 2018

(in thousands of US dollars)

	Note	2020 $	2019 $	2018 $
Revenue	19	**55,484**	**37,242**	**23,858**
Expenses				
Salaries and wages		32,854	26,360	25,722
Direct marketing		22,197	18,454	13,046
Selling, general and administrative		7,745	7,082	7,659
Depreciation and amortization	4,5	3,334	2,574	1,781
Impairment of intangible assets	5	-	776	-
Other		106	240	33
Interest	7	328	-	-
Foreign currency losses		15	37	33
Total operating expenses		**66,579**	**55,523**	**48,274**
Loss before income taxes		**(11,095)**	**(18,281)**	**(24,416)**
Income tax expense/(recoverable)	10	(1,292)	306	-
Net loss for the year		**(9,803)**	**(18,587)**	**(24,416)**
Non-controlling interest redemption increment	11	(1,595)	(1,104)	(920)
Net loss attributable to Keypath International shareholders		**(11,398)**	**(19,691)**	**(25,336)**
Other comprehensive gain (loss)				
Foreign currency translation adjustment		41	(272)	(302)
Comprehensive loss attributable to Keypath International shareholders		**(11,357)**	**(19,963)**	**(25,638)**

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

Keypath International

Consolidated Statements of Changes in Shareholders' Equity

For the years ended June 30, 2020, 2019 and 2018

(in thousands of US dollars)

	Note	Preferred shares $	Ordinary shares $	Accumulated deficit $	Accumulated other comprehensive (loss) income $	Total shareholders' deficit $
Balance – June 30, 2017		16,100	1,185	(24,144)	24	(6,835)
Net loss for the year		-	-	(25,336)	-	(25,336)
Other comprehensive loss		-	-	-	(302)	(302)
Additional Paid-in Capital		-	30,300	-	-	30,300
Balance – June 30, 2018		16,100	31,485	(49,480)	(278)	(2,174)
Impact of change in accounting policy	2,6	-	-	1,420	-	1,420
Net loss for the year		-	-	(19,691)	-	(19,691)
Other comprehensive loss		-	-	-	(272)	(272)
Additional Paid-in Capital		-	17,600	-	-	17,600
Balance – June 30, 2019		16,100	49,085	(67,751)	(550)	(3,116)
Net loss for the year		-	-	(11,398)	-	(11,398)
Other comprehensive gain		-	-	-	41	41
Additional Paid-in Capital	7,11,12	-	5,000	-	-	5,000
Balance – June 30, 2020		16,100	54,085	(79,149)	(509)	(9,473)

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

Keypath International

Consolidated Statements of Cash Flows

For the years ended June 30, 2020, 2019 and 2018

(in thousands of US dollars)

	Note	2020 $	2019 $	2018 $
Cash provided by (used in)				
Operating activities				
Net loss for the year		(9,803)	(18,587)	(24,416)
Impairment of intangible assets	5	-	776	-
Depreciation and amortization		3,334	2,574	1,781
Amortization of debt transaction costs and discount	7	57	-	-
Loss on disposal of property and equipment	4	52	209	-
Deferred rent		(870)	(259)	557
Lease expense in excess of lease payments		648	-	-
Deferred tax recovery	10	(1,714)	-	-
Changes in operating assets and liabilities:				
Accounts receivable		(841)	(3,519)	(1,071)
Accounts payable and accrued expenses		2,904	1,417	(2,233)
Income taxes payable		412	310	
Deferred revenue		792	311	(65)
Prepaid expenses and other		(1,050)	(195)	(157)
		(6,079)	(16,963)	(25,604)
Investing activities				
Additions of amortizable intangible assets		(3,199)	(2,653)	(2,092)
Purchase of property and equipment		(572)	(338)	(1,026)
		(3,771)	(2,991)	(3,118)
Financing activities				
Proceeds from long-term debt	7	10,000	-	-
Payment of debt transaction costs	7	(504)	-	-
Proceeds from issuance of redeemable preferred units to non-controlling interests	11	5,000	5,000	-
Proceeds from Additional Paid-in Capital	12	5,000	17,600	30,300
		19,496	22,600	30,300
Effect of exchange rate changes on cash and restricted cash		41	(272)	(302)
Net increase in cash and restricted cash		9,687	2,374	1,276
Cash and restricted cash – beginning of year		5,012	2,638	1,362
Cash and restricted cash – end of year		14,699	5,012	2,638
Supplemental cash flow information				
Interest paid		271	-	-
Income taxes paid		-	-	-
Cash paid for amounts included in the measurement of operating lease liabilities		1,039	-	-
Right-of-use assets obtained in exchange for operating lease obligations, net of lease incentives		2,183	-	-

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

(in thousands of US dollars)

1 Composition of the Group and nature of operations

Keypath International (the Company) is a holding company that conducts no operating activities and owns no significant assets other than its interest in its wholly owned subsidiary Keypath Education Intermediate Holdings, LLC. The Company was incorporated in the Cayman Islands on December 16, 2014. Keypath Education Intermediate Holdings, LLC (KEIH) wholly owns Keypath Education Holdings, LLC (KEH), which in turn owns four companies, being Keypath Education, LLC, Keypath Education Canada, Inc., Keypath Education UK, Ltd. and Keypath Education Australia Pty Ltd (together the Group). References to the Company shall be deemed to include the Group to the extent appropriate within the context of said reference.

The Group's principal activity is online program management (OPM) serving the postgraduate education market of traditional universities. The Group enables universities in Australia, North America and the United Kingdom to deliver technology-enabled online degrees and programs driven by market-demand. Through end-to-end technology and data-driven service, the Group partners with universities to design, launch, and grow online programs that deliver career-relevant skills to address global, social and economic challenges and prepare busy professionals for the future of work.

Services provided include design of programs, marketing to prospective students, recruitment and retention of students during their enrolment, and for certain programs, placement services. The Company enters into bespoke long-term contracts with universities and earns revenue through an agreed revenue share with the relevant university during the contracted term. Keypath's employees and offices are presently located in Canada, the United States, Australia and the United Kingdom.

2 Summary of significant accounting policies

Basis of presentation and principles of consolidation

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned and controlled subsidiaries, being the Group as identified above. All significant intercompany accounts and transactions have been eliminated on consolidation.

Foreign currency

The functional and reporting currency of the Company is United States dollars. In accordance with ASC 830, Foreign Currency Matters, assets and liabilities of non-US subsidiaries whose functional currency is the local currency are translated into US dollars at exchange rates prevailing at the consolidated balance sheet date. Functional currencies of non-US subsidiaries include Australian dollars, Canadian dollars and British Pounds Sterling. Revenue and expenses are translated at average exchange rates during the year. The net exchange differences resulting from these translations are reported in accumulated other comprehensive (loss) income. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of loss and comprehensive loss.

(in thousands of US dollars)

Redeemable non-controlling interests

Noncontrolling interests in the consolidated financial statements represent preferred units and warrants for common stock in subsidiary entities. The preferred units carry a cumulative preferred return that is different to that of the holders of ordinary shares. The holders of the preferred units have no voting rights and do not share in the profits or losses other than the cumulative preferred return of the relevant subsidiary entities. As such, the hypothetical-liquidation-at-book value method (HLBV) was used to determine the value of the preferred return to record each year, which is recognized in the consolidated statement loss and comprehensive loss as a non-controlling interest redemption increment. Under the HLBV method, applying the percentage ownership interest to the net income (loss) in order to determine earnings or losses would not accurately represent the income allocation and cash flows distributions that will ultimately be received by the holder. The Company applies HLBV using a balance sheet approach. A calculation is prepared at each balance date to determine the amount that the ordinary shareholders, preferred shareholders, preferred unitholders and warrant holder would receive if the Company were to liquidate all of its assets on that date and distribute cash to the holders based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and end of the reporting period, after adjusting for capital contributions and distributions, is each holder's share of income or loss from the Company for the period. The principal value of the preferred units and cumulative preferred return are included in the mezzanine section of the consolidated balance sheet, outside of shareholders' equity, and presented as redeemable non-controlling interests.

The preferred units have no fixed redemption date and can only be redeemed upon a specified transaction event as defined in the underlying shareholder agreements. When a specified transaction event becomes certain to occur, the relevant preferred units and cumulative preferred return are reclassified to liabilities in that financial period at their redemption value, with the difference to the carrying amount recognised as a loss in the consolidated statement of loss and comprehensive loss. Refer further to note 7 (warrants) and note 11 (redeemable non-controlling interests).

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Significant estimates and assumptions are inherent in the analysis and the measurement of impairment of accounts receivable, the recoverability of long-lived assets, amortizable intangibles, goodwill, deferred tax assets, as well as on the Company's assessment of its liquidity risk. Due to the inherent uncertainty involved in making estimates, particularly in light of the COVID-19 pandemic, actual results reported in future periods may be affected by changes in those estimates. The Company evaluates its estimates and assumptions on an ongoing basis.

(in thousands of US dollars)

COVID-19

In March 2020, the World Health Organization characterized the outbreak of the novel coronavirus (COVID-19) as a global pandemic. This has resulted in local governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses across the world, resulting in an economic slowdown. Equity markets have experienced significant volatility and weakness and local governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. While the Company has not yet experienced a significant disruption to its business as a result of COVID-19, there is significant uncertainty as to the likely effects of this outbreak. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments to quantify the impact this pandemic may have on the financial results and condition of the Company in future periods.

Revenue recognition

On July 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) Accounting Standards Codification (ASC) 606 (ASC 606) using the modified retrospective method and concluded that doing so did not have a material impact on the amount and timing of revenues.

The Company has revised its accounting policies for revenue recognition to conform with the new standard as follows:

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. OPM services consist of marketing, recruitment, program management, placement services, student retention, course development and help desk support services to support online e-learning degree programs offered by universities. Revenue from OPM comprises primarily a share of tuition fees received from students who enrol in the program courses with university partners. The Company's contracts with university partners typically have terms of five to 10 years. The Company determined that OPM services are a single performance obligation as the obligations under the contracts consist of tightly integrated technology and services that university partners need to attract, enrol, educate and support students, which are not distinct within the context of the contracts. The single performance obligation is delivered as the university partners receive and consume benefits, which occurs ratably over a series of academic terms. The amounts received from university partners over the term of the arrangement are variable in nature in that they are dependent upon the number of students that are enrolled in the program within each academic term. These amounts are allocated to and are recognized ratably over the related academic term, defined as the period beginning on the first day of classes through the last. Fees paid by customers, paid in advance, are deferred on the consolidated balance sheets and recognized into income as they are earned.

(in thousands of US dollars)

The Company does not disclose the value of unsatisfied performance obligations because the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a service that forms part of a single performance obligation.

Prior revenue recognition policy

The revenue recognition policy under Topic 605, which applies to the year ended June 30, 2018, was as follows:

OPM services consist of marketing, recruitment, program management, placement services, student retention, course development and help desk support services to support online e-learning degree programs offered by universities. Revenue from OPM comprises primarily a share of tuition fees received from students who enrol in the program courses and is recognized over the duration of the program once collectibility is established, delivery of services has occurred, all performance obligations have been satisfied and no refund obligation exists. Fees paid by customers, paid in advance, are deferred on the consolidated balance sheets and recognized into income as they are earned.

Revenue is recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectibility is reasonably assured.

Contract acquisition costs

In conjunction with the Company's adoption of ASC 606 from July 1, 2018, the Company completed a review of its contracts and evaluated its costs, particularly costs of obtaining degree program agreements with new and existing university partners. Under ASC 606 and Subtopic 340-40, the "incremental costs of obtaining a contract with a customer" are to be capitalized as an asset if the Company expects to recover these costs. The Company has identified that sales commissions paid on the signing of a new partner and/or program have met this criterion as it relates directly to obtaining university partner degree program contracts and are not earned unless a contract is executed and goes live. The new standard has been applied to all new contracts initiated on or after the effective date and for contracts that have remaining obligations as at the effective date. The Company previously treated these sales commission costs as a period expense. Upon adoption, the Company recorded the capitalization of sales commission, net of accumulated amortization, on the consolidated balance sheets for $1,420, with an opening adjustment to retained earnings for the same amount. The capitalized commissions are amortized over the term of the contract life, which usually ranges from five to 10 years.

Accounts receivable

Accounts receivable policy from July 1, 2019

Accounts receivable, net of allowance includes trade accounts receivable, which are comprised of billed and unbilled revenue. Accounts receivable is stated at amortized cost net of allowance for credit losses. The Company's methodology to measure the allowance for credit losses requires an estimation of loss rates based upon historical loss experience adjusted for factors that are relevant to determining the expected collectability of accounts receivable. Some of these factors include current market conditions, delinquency trends, aging behaviour of receivables and credit and liquidity quality indicators for industry groups, customer classes or

(in thousands of US dollars)

individual customers. The Company's estimates are reviewed and revised periodically based on the ongoing evaluation of credit quality indicators. Historically, actual write-offs for uncollectible accounts have not significantly differed from prior estimates.

The Company recognizes unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized because billings to university clients do not occur until after the academic term has commenced and final enrolment information is available. The Company's unbilled revenue represents contract assets. Unbilled accounts receivable is recognized once the presentation period commences for amounts to be invoiced to students under instalment plans that are paid over the same presentation period.

Accounts receivable policy prior to July 1, 2019

Accounts receivable are stated at amounts billed or to be billed to customers for services already delivered. The Company provides an allowance for doubtful accounts, which is based on a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are due between 0 to 30 days after issuance of the invoice. Receivables are considered delinquent after 180 days and are written off based on individual credit evaluation and specific circumstances of the customer.

Deferred revenue

Deferred revenue balances are contract liabilities that represent the excess of amounts billed or received as compared to amounts recognized in revenue on the Company's consolidated statements of loss and comprehensive loss as of the end of the reporting period, and such amounts are reflected as a current liability on the Company's consolidated balance sheets. The Company generally receives payments from university clients early in each academic term. These payments are recorded as deferred revenue until the services are delivered or until the Company's obligations are otherwise met, at which time revenue is recognized.

Cash, cash equivalents and restricted cash

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. As at June 30, 2020, cash equivalents consisted primarily of certificates of deposit and restricted cash of $368 (2019 – $377, 2018 – $397), representing a bank guarantee required on the Company's office lease in Australia.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Expenditures for purchases and improvements are capitalized. Depreciation on furniture and fixtures is calculated using the straight-line method over the estimated seven-year useful lives of the assets. Computer hardware is depreciated on a straight-line basis over three to five years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the improvements, ranging from five to seven years using the straight-line method.

(in thousands of US dollars)

Lease accounting

On July 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842) (ASC 842) using the modified retrospective method. The standard requires the recognition of lease assets and lease liabilities arising from operating and finance leases on the balance sheet. The Company leases its office premises in the US, Canada and Australia, as well as some office equipment, and has determined that these would continue as operating leases under ASC 842. The Company does not have any finance leases. Upon adoption, the Company elected to apply the following practical expedients:

The package of practical expedients that permits entities to not reassess (i) whether expired or existing contracts contain a lease under the new standard, (ii) the lease classification for expired or existing leases, or (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard;

The election to account for lease and non-lease components as a single component; and

The election to use hindsight when determining the lease term, where applicable.

The Company has revised its accounting policy to conform with ASC 842 as follows.

For the Company's operating leases, an assessment is performed to determine if an arrangement contains a lease at lease inception, which is generally when the Company takes possession of the asset. The Company records a lease liability and a corresponding right-of-use asset. Lease liabilities represent the Company's obligation to make lease payments arising from the lease and are calculated as the present value of minimum lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the Company's incremental collateralized borrowing rate of 10% at the lease commencement as the information necessary to determine the rate implicit in the lease is not readily available. Right-of-use assets represent the right to control the use of the leased asset during the lease and are initially recognized in an amount equal to the lease liability. In addition, prepaid rent, initial direct costs and adjustments for lease incentives are components of the right-of-use asset. The lease expense is recognized on a straight-line basis over the lease term.

The Company has elected, as an accounting policy for its leases of real estate, to account for lease and non-lease components in a contract as a single lease component. In addition, the recognition requirements are not applied to leases with a term of 12 months or less. Rather, the lease payments for short-term leases are recognized on the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

Variable payments that depend on an index or a rate are initially measured using the index or rate at the lease commencement date. Such variable payments are included in the total lease payments when measuring the lease liability and right-of-use asset. The Company will only remeasure variable payments that depend on an index or a rate when the Company is remeasuring the lease liability due to any of the following occurring: (i) the lease is modified and the modification is not accounted for as a separate contract; (ii) a contingency, upon which some or all of the variable lease payments that will be paid over the remainder of the lease term are

(in thousands of US dollars)

based, is resolved; (iii) there is a change in lease term; (iv) there is a change in the probability of exercising a purchase option or (v) there is a change in the amount probable of being owed under residual value guarantees. Until the lease liability is remeasured due to one of the aforementioned events, additional payments for an increase in the index or rate will be recognized in the period in which they are incurred. Variable payments that do not depend on an index or a rate are excluded from the measurement of the lease liability and recognized in the consolidated statements of loss and comprehensive loss in the period in which the obligation for those payments is incurred. The Company will remeasure its lease payments when the contingency underlying such variable payments is resolved such that some or all of the remaining payments become fixed.

Upon adoption as at July 1, 2019, the Company recorded a right-of-use asset of $2,183 which has been adjusted for lease incentives and corresponding lease liability of $3,052 on the consolidated balance sheet related to its operating leases the comparative period has not been restated.

The Company leases its office premises in the US, Canada, and Australia and accounts for all its leases as operating leases.

The lease policy under ASC 840 that applied to the comparative figures as at June 30, 2019 and 2018 was as follows. For leases that contain rent escalations, the lease term for recognition of straight-line rent expense commences on the date the Company takes possession of the leased property. Similarly, landlord incentives or allowances under operating leases are recorded as a deferred rent liability. The deferred rent liability is amortized as a reduction of rent expense on a straight-line basis over the lease term, commencing on the date the Company takes possession of the leased property.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Company tests for goodwill impairment at the reporting unit level. When testing for goodwill impairment, the Company performs a qualitative assessment. Based on the results of this qualitative assessment, if the Company concludes it is more likely than not that a reporting unit's fair value is less than its carrying amount, a quantitative analysis is performed. The quantitative analysis involves comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit and may be based on the income approach (discounted cash flow method) or the market approach (guideline public company method). If the fair value exceeds carrying value, then it is concluded that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure possible goodwill impairment loss. The second step includes valuing the tangible and intangible assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of that goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, the Company recognizes an impairment loss in an amount equal to the excess, not to exceed the carrying value.

In conducting the qualitative assessment, the Company performs an analysis on the conditions below as it relates to the business to determine if goodwill is impaired:

(in thousands of US dollars)

Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;
Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development;
Cost factors such as increases in labor, or other costs that have a negative effect on earnings and cash flows;
Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods, company valuation trend;
Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation; and
Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

After performing the qualitative assessment as at June 30, 2020, 2019 and 2018, the Company determined that goodwill was not impaired.

Amortizable intangible assets

Intangible assets with a definite life are amortized on the straight-line basis over periods ranging from three to 11 years. Such assets are periodically evaluated as to the recoverability of their carrying values. These intangible assets include customer relationships, trade names, and website platforms, software and other intangibles (which includes capitalized course development).

Capitalized course development

Course development costs are capitalized and amortized on a straight-line basis over three years. Costs related to the development of online learning programs include costs relating to instructional design, multimedia development and the uploading of course material. Applicable costs include direct third-party costs (such as specific contract labour, software and licence purchases) as well as salaries and wages and other payroll-related costs of employees specifically involved in development of courses contracted with university partners.

Capitalized course development costs are assessed for impairment whenever circumstances, such as the cancellation of a program with a university partner, indicate that the carrying amount may not be fully recoverable. An impairment loss is recognized to the extent that the carrying amount exceeds the estimated fair value of the asset.

Long-lived asset impairment

The Company evaluates the recoverability of the carrying value of long-lived assets (property and equipment and amortizable intangible assets) whenever events or circumstances indicate the carrying amount may not be

(in thousands of US dollars)

recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Income taxes

The Company is a holding company for subsidiaries that are partnerships, corporations or a limited liability company.

The consolidated financial statements reflect the tax cost or benefit of the results of its operations, and as such, the Company presents its income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenue.

The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company files income tax returns for itself and its subsidiaries in the US federal jurisdiction, various states and foreign jurisdictions as required.

Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

(in thousands of US dollars)

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date;

Level 2 inputs – other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 inputs – unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. In these cases, the Company develops its own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Information about fair values relevant to the Company's financial instruments is disclosed in note 18.

Share-based payments

Share-based payments to employees, including grants of unit options and restricted units (together Incentive Units), are recognized in the consolidated financial statements as compensation expense based on their fair value on the date of grant, in accordance with ASC 718, Compensation-Stock Compensation. The awards are liability classified, to the extent that a liability is probable, as the Company has the right, but not the obligation, to call the awards and settle in cash or a promissory note upon an employee's termination. Refer to note 13 for a detailed discussion of share-based payments.

Recently issued accounting pronouncements not yet adopted

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which requires customers in cloud computing arrangements that are service contracts to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact the adoption of the standard will have on the Company's consolidated financial statements.

In October 2019, the FASB issued ASU 2019-10, Financial Instruments–Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), which provides entities that have certain financial instruments with further clarification on transitioning to a major update and the amount of time needed for implementation. The FASB has developed a philosophy to extend and simplify how effective dates are staggered between larger public companies and all other entities. Those other entities include private companies, smaller public companies, not-for-profit organizations and employee benefit plans. Under this philosophy, a major update would first be effective for larger public entities that are Securities Exchange Commission (SEC) filers. For all other entities, the FASB will consider an effective date staggered at least two years after SEC filers for major updates. Generally, it is expected that early application would continue to be allowed for all other entities. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The

(in thousands of US dollars)

Company is currently assessing the impact the adoption of this amendment will have on the Company's financial position and its related disclosures.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 840), Simplifying the Accounting for Income Taxes, which provides entities within the scope of Topic 740, Income Taxes. The amendments simplify the accounting for income taxes by removing certain exceptions such as (i) exceptions to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income/gain from other items; (ii) exceptions to the requirement to recognize deferred tax liabilities for equity method investments when a foreign subsidiary becomes an equity method investment; and (iii) exceptions to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments also simplify the accounting for income taxes by requiring that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transition. Further, the amendments require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this update are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The Company is currently assessing the impact the adoption of this amendment will have on the Company's financial position and its related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU is intended to provide optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, to ease the potential accounting and financial reporting burden associated with the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This ASU may be applied as of the beginning of any interim period that includes its effective date (i.e., March 12, 2020) through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements or related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This ASU simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts indexed to and potentially settled in an entity's own equity. The new guidance eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. As a result, in more cases, convertible debt will be accounted for as a single instrument. The guidance also removes certain conditions for equity classification related to contracts in an entity's own equity and requires the application of the if-converted method for calculating diluted earnings per share. This ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is evaluating the impact that this ASU will have on its consolidated financial statements and related disclosures.

(in thousands of US dollars)

Recently adopted accounting pronouncements

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers and Other Assets and Deferred Costs–Contracts with Customers (Subtopic 340-40), which supersedes (i) revenue recognition requirements in Topic 605 and most related industry-specific guidance and (ii) cost guidance included in Subtopic 605-35, Revenue Recognition–Construction-Type and Production-Type Contracts. The amendment enhances the comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and provides a framework for addressing revenue recognition issues comprehensively. The amendment also improves the understandability of revenue and provides guidance for transactions that are currently not addressed.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for all entities by one year. The standard is effective for non-public entities for fiscal years beginning after December 15, 2018 and interim periods within those years beginning after December 15, 2019. For public entities, this standard is effective for fiscal years and interim periods within those years, beginning after December 15, 2017.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which is intended to clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance.

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605): Rescission of SEC Guidance Because of Accounting Standards Update 2014-09 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which rescinds certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, effective upon adoption of Topic 606. ASU 2020-05 deferred the effective date of this standard for entities that are non-public business entities to years beginning on or after December 15, 2019 and to interim reporting periods within years beginning after December 15, 2020. The Company adopted this standard using the modified retrospective method effective July 1, 2019.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities arising from operating and finance leases on the balance sheet. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. The Company adopted this standard using the modified retrospective method effective July 1, 2019.

(in thousands of US dollars)

Credit losses

In April 2019, the FASB issued ASU 2019-04Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which updates ASU 2018-19 and ASU 2016-13, Financial Instruments–Credit Losses. The update and related amendment introduce an expected credit loss methodology for the impairment of financial assets measured at amortized cost, replacing the probable, incurred loss model for those assets. This methodology includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU No. 2016-13 also requires enhanced disclosures to help financial statement users better understand assumptions used in estimating expected credit losses. The Company adopted this ASU and the related amendments on July 1, 2019 under the modified retrospective transition method, which resulted in no cumulative-effect adjustment to retained earnings.

Other

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230)–Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which affects all entities that are required to present a statement of cash flows under Topic 230. This update addressed eight specific cash flow issues with the objective of reducing the existing diversity in practice. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. The amendments in this update should be applied using a retrospective transition method to each period presented. The adoption of this standard did not result in a material impact to the Company's consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which clarifies and corrects unintended applications of guidance and makes improvements to several ASC topics. The applicable amendments in this ASU will be effective for the Company in annual periods beginning after December 15, 2018. The adoption of this standard did not result in a material impact to the Company's consolidated financial statements and related disclosures.

3 Liquidity

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to determine funds required to support the Company's normal operating requirements on an ongoing basis. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. The Company's primary sources of liquidity are cash, cash equivalents, external financing and equity funding. To date, the Company has managed its liquidity using funds invested by its ownership and through a debt arrangement with an external lender. The Company's ability to satisfy its liquidity needs and meet future growth targets is dependent on increasing revenues, improving profitability and continued funding from its ownership and external lender; however, these needs are expected to decline over time as the Company's continued growth is better leveraged over the fixed portion of its cost base. These profitability improvements primarily include the continued growth and development of its OPM operations in the US, Australia, UK and

(in thousands of US dollars)

Canada. If the Company is unable to increase volumes and improve profitability, liquidity or growth may be adversely affected. With the addition of the debt from an external lender during the year ended June 30, 2020, there is $13,491 in contractual undiscounted cash flow payments during the repayment term from fiscal years 2021 to 2025.

The Company will continue to monitor its liquidity carefully and address its cash needs through a combination of one or more of the following actions:

securing additional financing from new investors, lenders and/or existing investors;

implementing efficiency improvements;

carefully managing receipts and disbursements, including amounts and timing; and

effectively managing the timing and number of new program launches in order to manage cash outflows for program start-up costs.

As at June 30, 2020, the Company had $14,699 of cash and cash equivalents. The Company believes that cash on hand in addition to total committed funding of $15,000 expected to be received from its owners and external lender will provide sufficient liquidity to support the Company's ongoing business and financing cash flow requirements for at least, but not limited to, the next 12 months. Refer to note 7 for further information in relation to the Company's long-term debt commitments.

4 Property and equipment

Property and equipment as at June 30, 2020, 2019 and 2018 consisted of the following:

			2020
	Cost $	**Accumulated depreciation $**	**Net book value $**
Furniture and fixtures	331	155	176
Computer hardware	1,419	802	617
Leasehold improvements	963	477	486
Work-in-progress (computer hardware)	122	-	122
	2,835	1,434	1,401

			2019
	Cost $	**Accumulated depreciation $**	**Net book value $**
Furniture and fixtures	309	109	200
Computer hardware	1,193	608	585
Leasehold improvements	937	304	633
Work-in-progress (computer hardware)	5	-	5
	2,444	1,021	1,423

(in thousands of US dollars)

			2018
	Cost	**Accumulated depreciation**	**Net book value**
	$	**$**	**$**
Furniture and fixtures	373	80	293
Computer hardware	901	373	528
Leasehold improvements	1,133	162	971
	2,407	615	1,792

Total depreciation during the year ended June 30, 2020 was $540 (2019 – $498, 2018 – $406). During the year ended June 30, 2020, the Company disposed property and equipment with a cost and accumulated depreciation of $176 (2019 – $290, 2018 – $100).

5 Amortizable intangible assets and goodwill

Amortizable intangible assets

The carrying basis and accumulated amortization of recognized intangible assets as at June 30, 2020, 2019 and 2018 were:

			2020
	Gross carrying amount	**Accumulated amortization**	**Net carrying amount**
	$	**$**	**$**
Customer relationships	1,910	743	1,167
Website platforms, software and other intangible assets	8,666	4,349	4,317
Trade names	205	80	125
	10,781	5,172	5,609

			2019
	Gross carrying amount	**Accumulated amortization**	**Net carrying amount**
	$	**$**	**$**
Customer relationships	1,910	584	1,326
Website platforms, software and other intangible assets	5,833	2,408	3,425
Trade names	205	63	142
	7,948	3,055	4,893

(in thousands of US dollars)

			2018
	Gross carrying amount	**Accumulated amortization**	**Net carrying amount**
	$	**$**	**$**
Customer relationships	2,640	627	2,013
Website platforms, software and other intangible assets	4,605	2,062	2,543
Trade names	445	112	333
	7,690	2,801	4,889

No impairment loss was recorded for the years ended June 30, 2018 and 2020. An impairment charge of $776 was recognized for the year ended June 30, 2019 as a result of the discontinuation of the Seelio business line. During the year ended June 30, 2020, the Company disposed other intangible assets with a cost and accumulated amortization of $358 (2019 – $328, 2018 – $990) and a net carrying amount of $nil (2019 – $nil, 2018 – $nil).

Amortization expenses for the years ended June 30, 2020, 2019 and 2018 were $2,483, $1,872 and $1,375, respectively. The estimated amortization expense for each of the following fiscal years is:

	$
2021	2,401
2022	1,703
2023	741
2024	176
2025	176
Thereafter	412
	5,609

Goodwill

The carrying value of goodwill is $8,754. The business was reviewed for impairment as at June 30, 2020. The Company's qualitative assessment concluded that the fair value of the reporting unit was more likely than not in excess of its carrying amount. Accordingly, no impairment loss was recorded for the year ended June 30, 2020.

6 Contract assets and liabilities

Contract assets

Accounts receivable

Accounts receivable, net of allowance for credit losses, were $6,875 as at June 30, 2020 (2019 – $6,034, 2018 – $2,515). The following table presents the change in the Company's provision for credit losses:

Year ended June 30	**2020**	**2019**	**2018**
	$	**$**	**$**
Balance as of July 1	417	260	7
Current period provision	328	157	588
Amounts written off	-	-	(335)
Balance as of June 30	745	417	260

(in thousands of US dollars)

Contract acquisition costs

			2020
	Gross carrying amount $	**Accumulated amortization $**	**Net carrying amount $**
Contract acquisition costs	2,829	839	1,990

			2019
	Gross carrying amount $	**Accumulated amortization** $	**Net carrying amount** $
Contract acquisition costs	2,060	573	1,487

Upon adoption of ASC 606 and Subtopic 340-40, the Company recorded as at July 1, 2018 capitalization of sales commissions net of accumulated amortization on the consolidated balance sheets for $1,420 with an opening adjustment to retained earnings for the same amount. Sales commissions capitalized for the year ended June 30, 2020 were $818 (2019 - $314). Total amortization during the year ended June 30, 2020 was $310 (2019 - $205). During the year ended June 30, 2020, the Company disposed of sales commission assets with a cost and accumulated depreciation of $50 and carrying value of $nil.

Estimated amortization expenses for each of the following fiscal years for contract acquisition costs, as at June 30, 2020, are as follows:

	$
2021	343
2022	343
2023	315
2024	259
2025	252
Thereafter	478
	1,990

Contract liabilities

Deferred revenue

Contract liabilities comprise of deferred revenue and were $1,168 as at June 30, 2020 (2019 – $376, 2018 – $65). The following table presents the change in the Company's deferred revenue:

(in thousands of US dollars)

Year ended June 30	**2020**	**2019**	**2018**
	$	**$**	**$**
Balance as of July 1	376	65	130
Revenue deferred in current period	1,168	376	65
Revenue deferred in prior periods recognised as revenue in consolidated statement of loss	(376)	(65)	(130)
Balance as of June 30	1,168	376	65

7 Long-term debt

Long-term debt as at June 30, 2020 consisted of secured promissory notes and was as follows:

	$
Loan A – LIBOR plus 8.5%, maturing October 1, 2024	3,750
Loan B – LIBOR plus 8.5%, maturing October 1, 2024	3,750
Loan C – LIBOR plus 8.5%, maturing October 1, 2024	2,500
Total debt	10,000
Unamortized debt discount	(489)
Unamortized transaction costs	(476)
Total debt – net	9,035

On March 30, 2020, Keypath Education Holdings, LLC (“KEH”) entered into a Venture Loan and Security Agreement with Horizon Technology Finance Corporation to borrow up to $15,000 under four separate loan commitments consisting of $3,750 (Loan A), $3,750 (Loan B), $2,500 (Loan C) and $5,000 (Loan D) to be used for general working capital purposes. As at June 30, 2020, KEH had fully drawn on the facilities available under Loans A, B and C (the secured promissory notes). The secured promissory notes have a maturity date of October 1, 2024 and are subject to interest at a per annum rate (based on a 360-day year) equal to the One-Month LIBOR Rate as reported in the Wall Street Journal on the first calendar day of the month plus 8.5%. The One-Month LIBOR Rate is subject to a minimum/floor of 2%. The secured promissory notes are subject to interest only for the first 24 months of the promissory note term, followed by 30 months of principal and accrued interest payments. Principal is repayable in 30 equal payments of $125, $125 and $83 for Loans A, B and C, respectively, with the terminal amount due on the maturity date. The availability of the Loan D commitment is subject to KEH and its subsidiaries achieving $50,000 in trailing 12-month revenues. Note that this condition has been met as at June 30, 2020. Loan D is undrawn as at June 30, 2020 and has a termination date of March 31, 2022, if undrawn as at such date. The secured promissory notes are secured by collateral consisting of certain assets of KEH, including stock pledges in its subsidiaries; property, plant and equipment; intangibles; licences and cash, among others as defined in the Venture Loan and Security Agreement. There are no financial covenants set out in this agreement.

Transaction costs of $504 were capitalized relating to the issuance of the Venture Loan and Security Agreement against the secured promissory notes. The unamortized balance is being amortized over the remaining term of the secured promissory notes on a straight-line basis. During the year ended June 30, 2020, an amortization

(in thousands of US dollars)

charge of $28 in relation to these transaction costs has been recorded within interest expense in the consolidated statements of loss and comprehensive loss.

In connection with the Venture Loan and Security Agreement, the lender was issued warrants to purchase Series B preferred units in Keypath Education Intermediate Holdings, LLC (“KEIH”). The warrants were issued in four separate tranches equal to 6% of each of the available loan commitments representing a total exercise price of $900. The warrant agreements entitle the lender to acquire one Series B preferred unit in KEIH at a price equal to $1 per unit unless the warrants are exercised for Next Round Units as defined in the warrant agreements, in which case they are exercisable at the lowest effective price per unit at which ownership interests in the Company or any of its affiliates are sold in the sale of such Next Round Units. The warrants are exercisable at any time from the grant date (March 30, 2020) through the earlier of (i) the date that is 10 years after the grant date, or (ii) the date of an acquisition (as defined in the warrants). The secured promissory notes were apportioned with $9,483 going to the debt instruments and $517 going to the warrants based on their relative fair values. The fair value of the debt instrument will be accreted from $9,483 to $10,000 over the term of the loan. The fair value of the warrants issued were estimated to be $545 using the Black Scholes option pricing model. The model required the use of inputs that were unobservable in the marketplace (Level 3) in addition to known inputs (exercise price, time to maturity and annual risk-free rate based on the 10-year treasury rate). The value that was bifurcated to the warrants has been recognized in noncontrolling interests in the consolidated balance sheet. As at June 30,2020 and at the date of these financial statements, no event has occurred that would cause the exercise of the warrants.

8 Leases

The Company leases its office premises in the US, Canada and Australia, as well as certain office equipment, and has determined that these would continue as operating leases under ASC 842. Non-cancellable operating leases for office space expire in fiscal years through 2023 and require the Company to pay its pro rata portion of operating costs (property taxes, maintenance and insurance). The leases for office space include options to extend the leases for a further 5 years for both the Australian and Canadian offices, and for two seven-year terms for the US office. These extension options were not deemed to be reasonably certain of exercise as of lease commencement as the existing office spaces may or may not meet future capacity requirements. Therefore, the extension options are not included in the determination of their respective non-cancellable lease terms. As at June 30, 2020, the Company’s weighted-average remaining lease term was 2.31 years and the weighted-average discount rate was 10%. The future minimum lease payment for annual periods ending June 30 are $2,536.

	$
2021	1,080
2022	1,106
2023	350
Total lease payments	2,536
Less: Implicit interest	288
Total lease liability (short-term and long-term)	2,248

Total lease expense recorded within selling, general and administrative expense in the consolidated statements of loss and comprehensive loss for the years ended June 30, 2020, 2019 and 2018 was $1,138 (ASC 842), $957

(in thousands of US dollars)

(ASC 840) and $1,089 (ASC 840), respectively. The components of lease expense consisted of the following for the periods presented:

	2020 $	2019 $	2018 $
Operating lease expense	829	957	1,089
Variable lease expense	309	-	-
Total lease expense	1,138	957	1,089

As at June 30, 2020, the Company has an additional operating lease for its US office that has not yet commenced with future minimum lease payments of approximately $405. This operating lease will commence in fiscal year 2021 with a lease term up to fiscal year 2023.

9 Accounts payable, non-current

In response to COVID-19, various government programs have been announced to provide financial relief for affected businesses. Most significantly, under the Coronavirus Aid, Relief, and Economic Security Act, which was enacted in the US on March 27, 2020, the Company is allowed to defer payment of the employer's share of Social Security taxes incurred from March 2020 through December 31, 2020. As at June 30, 2020, the Company has deferred $194, of which 50% is due on December 31, 2021 and the remaining 50% is due on December 31, 2022.

10 Income taxes

The Company files income tax returns in the US federal jurisdiction, various state jurisdictions and foreign jurisdictions. The provision for income taxes for the years ended June 30 includes these components:

Year ended June 30	2020 $	2019 $	2018 $
Current			
Federal	-	-	--
Foreign	426	306	-
Deferred			
Foreign	(1,718)	-	-
Total income tax expense/(recovery)	(1,292)	306	-

(in thousands of US dollars)

A reconciliation of the income tax benefit at the statutory rate to the Company's actual income tax benefit is shown below:

Year ended June 30	**Note**	**2020 $**	**2019 $**	**2018 $**
Computed at the statutory rate (2020 – 21%, 2019 – 21%, 2018 – 21%)		(2,330)	(3,839)	(5,127)
Increase (decrease) resulting from:				
Withholding taxes	a	426	306	-
Foreign tax rate differences	b	(43)	(6)	5
Tax utilization/(benefit) of losses in foreign jurisdictions	b	(65)	727	438
Foreign exchange translation and other		834	(128)	(294)
Change in partnership investment	c	(863)	(163)	(1,063)
Loss allocated to other partnership member	c	-	-	870
Change in US State loss carry-forwards	d	(261)	(648)	(843)
Revaluation for change in US tax rate from 34% in 2017 to 21% in 2018		-	-	2,710
Prior year adjustment		92	-	-
Valuation allowance (reduction)/ increase	e	918	4,057	3,304
Actual tax expense/(recovery)		(1,292)	306	-

a) Certain payments made by the Company's foreign subsidiaries to a US subsidiary of the Company are subject to withholding taxes levied by the relevant local tax authorities.

b) Certain foreign subsidiaries are treated as disregarded entities for US tax purposes and their results subject to US tax by the Company. Their results are also subject to tax in foreign jurisdictions. These results increase or decrease the deferred tax asset recorded in these jurisdictions by the Company.

c) The Company's US subsidiaries are treated as partnerships for US tax purposes. The losses of these partnerships flow through to each member based on their respective ownership. For tax purposes, these partnerships are not consolidated but rather treated as investments. A deferred income tax asset has been recorded for the difference between the book basis and tax basis of the partnership investment of the company's immediate subsidiary KEIH.

d) The Company and its US subsidiaries are required to file tax returns in certain US States. A deferred tax asset is recognised on loss carry-forwards generated in those States.

e) Prior to the year ended June 30, 2020, the Company had a history of losses. As a result, it was uncertain that it is more likely than not that future operations would generate sufficient taxable income to realize the deferred tax assets, and hence had established a valuation allowance. For the year ended June 30, 2020, the Australian subsidiary reported earnings. It is expected that these earnings will continue and

(in thousands of US dollars)

strengthen. Therefore, the valuation allowance for the Australian subsidiary was removed. The valuation allowance for the deferred tax asset in the US, and for its UK and Canadian subsidiaries remains.

As at June 30, 2020, the Company has net operating loss carry-forwards for international income tax purposes of $70,955 (2019 – $63,107, 2018 – $45,637). The Company also has loss carry-forwards in various US states. See below for composition of net deferred tax assets.

The components of current and deferred income taxes on the consolidated balance sheets as at June 30 were as follows:

	2020 $	2019 $	2018 $
Deferred tax asset	1,714	-	-
Income tax payable	(722)	(310)	-
	992	(310)	-

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets as at June 30 were as follows:

	2020 $	2019 $	2018 $
Deferred tax asset			
Accrued expenses	676	274	198
Partnership investment	5,669	4,642	4,449
Net operating losses	16,946	15,788	11,588
Deferred tax liability			
Property and equipment	(365)	(142)	--
Contract acquisition costs	(336)	(270)	-
Valuation allowance	(20,876)	(20,292)	(16,235)
Deferred tax asset, net	1,714	-	-

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2020 $	2019 $	2018 $
Balance July 1	208	-	-
Additions related to current year provisions	59	208	-
Reductions related to prior years provisions	(12)	-	-
Balance June 30	255	208	-

The Company has recorded $255 for uncertain tax positions as at June 30, 2020. It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. If the Company were to recognize the unrecognized benefit, the tax provision would be reduced by $255 at June 30, 2020 (2019 - $208, 2018 –$nil).

(in thousands of US dollars)

Tax years 2017 through 2020 remain open to examination.

11 Redeemable non-controlling interests

Preferred units

Redeemable non-controlling interests classified as mezzanine equity in the consolidated balance sheet primarily reflect preferred units issued to parties unrelated to the Company, its shareholders or affiliates of shareholders. The preferred units and the cumulative preferred return can only be redeemed upon the occurrence of specified transactions involving a sale or change in control of the relevant subsidiary entities, the Company's parent entity or the ultimate owners of the Company's parent, as set out in the relevant shareholder agreements for those subsidiary entities. A summary of the redeemable non-controlling interests in each financial year is provided below:

	2020 $	2019 $	2018 $
Preferred units in KEH	18,141	17,114	16,146
Preferred units in KEIH	10,704	5,136	-
Warrants in KEIH held by Horizon	517	-	-
	29,362	22,250	16,146

Preferred units in KEH

Preferred Units issued by KEH are redeemable, non-voting preferred units. The holder of these preferred units is entitled to a return of capital plus the preferred return only in the event of a sale of KEH or a change in control of KEH or its affiliated entities and subject to the distribution preferences as noted below.

Effective from March 30, 2017, the Preferred Units started accruing a Preferred Return at a rate of 6% per annum, accruing daily and compounding on December 31 of each calendar year. Distributions from the KEH are made first to the amount equal to the aggregate Unpaid Preferred Return as at the date of the distributions to the holders of the Preferred Units pro rata in accordance with their Unpaid Preferred Returns. Second, an amount equal to the aggregate Unreturned Capital as at the date of such distribution shall be distributed to the holders of Preferred Units pro rata in accordance with the aggregated Unreturned Capital of each Preferred Unit held by each such holder. Next, any residual amount shall be distributed to Incentive Unit holders (see note 11) in proportion to the number of vested Incentive Units held by each such Member, subject to the value of KEH being above the distribution threshold amount. Finally, any residual amount is then distributed to the holders of Common Units in proportion to the number of Common Units held by each such Member. Capitalized terms set forth above are further defined in KEH's Third Amended and Restated Limited Liability Company Agreement.

(in thousands of US dollars)

Preferred units in KEIH

Preferred Units issued by KEIH are redeemable, non-voting preferred units. The preferred units relate to KEIH's Series B Preferred Units with a matching number of units held by the Company, in accordance with the terms of KEIH's Amended and Restated Limited Liability Company Agreement effective 16 January 2019. Both the Company and the unrelated party have a commitment of up to $15,000 each to subscribe to Series B Preferred Units and at June 30, 2020 both parties had an uncalled capital commitment of $5,000 each.

The terms and conditions applicable to these preferred units are substantively similar to the terms and conditions that apply to the preferred units in KEH discussed above, including the same rate of preferred return, except that the redemption value of these units may be adjusted to reflect the market value of the Company in the event of a sale, Public Offering of the Company, or a corporate reconstruction of the ownership of the Company in connection with a Public Offering. Further, in the event of a Qualifying Sale Event, the unrelated party is entitled to submit an offer to acquire the Company. The shareholders of the Company are not permitted to accept any alternative offer that is less favourable from a financial point of view to all shareholders.

Distributions from the KEIH are made first to the amount equal to the aggregate Unpaid Series A Base Amount (on Series A preferred units 100% held by the Company). Second an amount equal to the Unpaid Series B Preferred Return as at the date of the distributions to the holders of the Series B Preferred Units pro rata in accordance with their Unpaid Preferred Returns. Third, an amount equal to the aggregate Unpaid Series B Base Amount as at the date of such distribution shall be distributed to the holders of Series B Preferred Units pro rata in accordance with the aggregated Unpaid Base Amount of each Series B Preferred Unit held by each such holder. Fourth, the amount equal to the aggregate Unpaid Series C Base Amount (Series C preferred units 100% held by the Company). Next, any residual amount shall be distributed to the holders of Series B and Series C preferred units in proportion to their respective holdings. Capitalized terms set forth above are further defined in KEIH's Amended and Restated Limited Liability Company Agreement.

As at June 30, 2020 and the date of these financial statements, no event has occurred to require the redemption of either of the preferred units discussed above.

Warrants

The warrants provided to Horizon are discussed in note 6. If exercised, the warrants allow Horizon to receive Series B Preferred Units in KEIH, which would then be subject to similar terms and conditions discussed above. As at June 30, 2020 and the date of these financial statements, no event has occurred to entitle Horizon to exercise the warrants.

12 Equity

Ordinary shares

The Company's authorised capital includes 5,000,000 ordinary shares with a par value of $0.01 each. One ordinary share was issued on December 16, 2014 and has been held by the Company's immediate parent entity, AVI Mezz Co., LP since December 22, 2014. There have been no further issues of ordinary shares since that date

(in thousands of US dollars)

and all capital contributed since then has been in the form of Additional Paid-in Capital. The following table summarizes the capital contributions since July 1, 2017.

	Amount $
Additional Paid-in Capital as at July 1, 2017	1,185
Capital contributed	30,300
Additional Paid-in Capital as at July 1, 2018	31,485
Capital contributed	17,600
Additional Paid-in Capital as at June 30, 2019	49,085
Capital contributed	5,000
Additional Paid-in Capital as at June 30, 2020	54,085

Preferred Shares

The Company issued a total of 16,100 preferred shares, which have a par value of $0.01 (one cent) each, on November 11, 2016 for cash proceeds of $16,100, and which are held by its immediate parent entity since June 30,2017. There have been no further issues of preferred shares or additional paid-in capital on them since that time.

The preferred shares do not have voting rights and do not provide the holder with any right to require the Company to redeem them for cash or conversion into ordinary shares, and accordingly are classified as shareholders' equity in the Company's balance sheet. Before the Company makes any distribution to the ordinary shareholder, it must first pay the preferred shareholder a return of the capital invested, being $16,100, plus a Preferred Return. The Preferred Return is calculated as 5% per annum, compounding at the end of each calendar year, from November 11, 2016. The Preferred Return is only recognised and payable to the extent declared by the directors of the Company and no such declaration has been made. No other circumstance has arisen which would require redemption of the preferred shares. As at June 30, 2020, the cumulative unpaid Preferred Return is $3,134 (June 30, 2019 $2,217 , June 30, 2018 $1,345).

13 Stock-based compensation

As at June 30, 2020, the Company has issued and has outstanding 6,325 Unit Options and 6,000 Restricted Units under the Keypath Education Holdings, LLC 2017 Equity Incentive Plan. The total pool is 15,000 units with 2,675 units available to be issued as at June 30, 2020. As at June 30, 2020, no Unit Options or Restricted Units have been exercised. The description of these units is discussed below.

KEH issues Unit Options and Restricted Units (collectively, the Incentive Units) to certain employees and directors of the KEH and its parent entities. The Unit Options have a 10-year term (option period), a $0.01 exercise price and are subject to vesting requirements based on continued employment. The Restricted Units

(in thousands of US dollars)

also contain vesting requirements based on continued employment. The Incentive Units typically vest over a four-year period (25% after the first anniversary of the grant date; the remaining Unit Option becomes vested rateably monthly over the remaining three years). In addition, the Incentive Units immediately vest upon the occurrence of a liquidity event as defined in the relevant agreements.

The Incentive Units are subject to a distribution threshold initially representing the calculated fair value of KEH as at the date of grant. The distribution threshold is adjusted to reflect capital contributions to KEH or distributions by KEH after the date of grant. The Incentive Unit holder derives value based on its proportional ownership share of KEH's value in excess of the adjusted distribution threshold (i.e., a market condition award) upon a liquidity event. The Incentive Units are issued in consideration for employee and director services, are non-voting and have restrictions on transferability. The Incentive Units are forfeited in the event of termination of employment for cause and any unvested Units are forfeited in the event of termination of employment, for any reason. KEH retains the right, but not the requirement, to repurchase the Incentive Units at fair value for the Incentive Units not otherwise forfeited upon separation. At no time does the Incentive Unit holder have the ability to put the Incentive Units to KEH for cash settlement.

No liability has been recognized for Incentive Units as a liquidity event is not yet probable.

The table below presents a summary of movements in the number of Unit Options and Restricted Units in each period.

	2020	2019	2018
Unit Options			
Number outstanding as at July 1	6,100	3,190	-
Granted	225	2,910	3,190
Number outstanding as at June 30	**6,325**	**6,100**	**3,190**
Restricted Units			
Number outstanding as at July 1	6,000	6,000	-
Granted	-	-	6,000
Number outstanding as at June 30	**6,000**	**6,000**	**6,000**

Subsequent to June 30,2020, a further 575 Unit Options and 1,000 Restricted Units have been granted.

14 Performance Awards

As at June 30, 2020, the Company has issued and outstanding Performance Awards representing an aggregate value equal to $4,000 under the Keypath Education Holdings, LLC 2017 Incentive Plan (2019 – $4,000, 2018 – $4,250). The Board has authorized total Performance Awards in the aggregate up to $5,000. The description of these awards is discussed below.

KEH issues Performance Awards to certain of its employees. The Performance Awards vest as follows: (A) 50% of the Performance Award (Time Vesting Award) shall vest, provided the recipient remains continuously employed with KEH, and in connection with a change in control, Sterling Capital Partners (representative of the

(in thousands of US dollars)

ultimate owners of the Company) achieves a realized value equal to three times the Sterling invested capital as follows: (i) 25% of the Time Vesting Award vests on the date 18 months following the grant date and (ii) the remaining 75% of the Time Vesting Award shall vest rateably on a monthly basis over the next 30 months, such that 100% of the Time Vesting Awards is vested on the fourth anniversary of the grant date; and (B) the remaining 50% of the Performance Award shall vest upon a change in control (CIC Vesting Award), provided the recipient remains continuously employed with KEH through the date of change in control and, in connection with such change in control, Sterling Capital Partners achieves a realized value equal to three times the Sterling invested capital. In addition, the Time Vesting Awards immediately vest upon the occurrence of a change in control if the recipient has been continuously employed by KEH from the grant date through the change in control, and Sterling Capital Partners achieves a realized value equal to three times the Sterling invested capital.

The Performance Awards are forfeited in the event of termination of employment for cause and any unvested portion of the Performance Awards are forfeited in the event of termination of employment, for any reason. If employment is terminated without cause, the grantee shall retain the vested portion of the Time Vesting Award.

As at June 30, 2020, the Company has recognized $nil in compensation expense in the consolidated statement of loss or consolidated balance sheet as the conditions above are not yet probable (2019 – $nil, 2018 – $nil).

15 Commitments and contingencies

Other than the commitments on the operating leases (note 8), the Company has no legal commitments or contingencies as at June 30, 2020.

16 Related party transactions

The Company receives management, consultant and financial services pursuant to an Advisory Services Agreement (Advisory Agreement) with Sterling Fund Management, LLC (SFM). SFM is an entity affiliated with the private equity fund that is the majority beneficial owner of the Company and its subsidiaries. Pursuant to the terms of the Advisory Agreement, fees are only earned, due and owing to SFM following a Trigger Event (as defined in the Advisory Services Agreement). As of the date hereof, no Trigger Event has occurred and, accordingly, no advisory fees have been earned or are due and owing to SFM.

The Company paid $56 for the year ended June 30, 2020 (2019 - $58, 2018 - $64) to an entity associated with SFM for Board fees.

Sterling has invested significantly and continues to invest in the business to fund ongoing operations (note 3).

17 Employee retirement plans

The Company has a 401(k) plan offered to all US employees, a similar RRSP match plan offered to all Canadian employees and a UK pension plan offered to all UK employees. Employees can elect to contribute up to the maximum allowable contribution, and the Company will match the employee's contribution up to 100% of the first 3% and then 50% on the next 2% for both the US and Canadian plans. The UK plan match is a set employee contribution of 5% matched 80% by the employer. Contributions were $565 (2019 – $401, 2018 – $369) for the

(in thousands of US dollars)

US plan, $85 (2019 – $74, 2018 – $51) for the Canadian plan and $33 (2019 – $34, 2018 – $34) for the UK plan in relation to the year ended June 30, 2020.

In Australia, pension (superannuation) contributions are made in accordance with Australian statutory mandated rates, currently 9.5% of an employee's gross salary or wage, subject to set limits over certain salary thresholds. Employees may contribute to any plan operated by registered superannuation funds of their choice. Superannuation contributions expense for Australian employees was $801 for the year ended June 30, 2020 (2019 - $560, 2018 - $500).

18 Financial instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and debt instruments. The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses are considered to be representative of their respective fair values because of the relatively short-term maturity or variable pricing of these financial instruments. The debt instruments are secured promissory notes and the inputs utilized to value the debt are classified as Level 2 on the fair value hierarchy. The fair value of the promissory notes reflects market rates of interest.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. Concentration of credit risk with respect to trade receivables exists due to the size of the Company's dependence on larger clients. As at June 30, 2020, the Company had five customers (2019 – five customers, 2018 – five customers) comprising over 54% (2019 – 65%, 2018 – 71%) of revenues as follows:

	2020 %	2019 %	2018 %
Customer 1	16	18	23
Customer 2	13	17	20
Customer 3	12	17	12
Customer 4	7	7	8
Customer 5	6	6	8
Total	54	65	71

Interest rate risk

The Company is subject to interest rate risk in connection with borrowings under its outstanding promissory notes (note 7). The promissory notes bear interest at a floating rate based on the One-Month LIBOR Rate plus 8.5%. The One-Month LIBOR Rate is subject to a minimum/floor of 2%. As at June 30, 2020, the interest rate was 10.5%. Increases to LIBOR would increase the amount of interest payable on any borrowings outstanding under the promissory notes.

(in thousands of US dollars)

Foreign exchange risk

The Company is exposed to foreign currency risk relating to transactions and assets denominated in a foreign currency. The Company does not currently use derivative instruments to reduce its foreign currency risk.

19 Segment and geographic information

The Company has one reportable operating segment, being Online Program Management (OPM). The Company's reportable segments are determined based on (i) financial information reviewed by the chief operating decision maker ("CODM"), being the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions. While the Company operates in different geographies, the OPM business offered by the Company in each geography is fundamentally the same. The CEO evaluates revenue by geography as an important measure of operating performance and growth. However, the costs of the Company are assessed by the CEO on a consolidated basis as many costs are centralised or cross geographic boundaries, and accordingly any measure of profitability by geography is not considered meaningful. The primary measure of profitability used by the CEO is Earnings Before Interest, Depreciation and Amortization (EBITDA) on a consolidated basis.

A breakdown of revenue by geography and a reconciliation of EBITDA to net loss for the year is presented as follows:

Year ended 30 June	**2020 $**	**2019 $**	**2018 $**
Revenue by geography			
United States	26,041	17,657	11,917
Canada	2,522	1,539	407
North America	28,563	19,196	12,324
APAC*	24,948	17,025	11,063
Rest of World*	1,973	1,021	471
Total Revenue	**55,484**	**37,242**	**23,858**
Salaries and wages	(32,854)	(26,360)	(25,722)
Direct marketing	(22,197)	(18,454)	(13,046)
Selling, general and administration	(7,745)	(7,082)	(7,659)
Other	(121)	(277)	(66)
EBITDA	**(7,433)**	**(14,931)**	**(22,635)**
Depreciation, amortization and impairment	(3,334)	(3,350)	(1,781)
Interest expense	(328)	-	-
Income tax recovery/(expense)	1,292	(306)	-
Net loss for the year	**(9,803)**	**(18,587)**	**(24,416)**

*Asia-Pacific Countries (APAC) currently includes Australia and Malaysia, with the Malaysian business commencing operations after 30 June 2020 and hence not contributing to the above periods. The Rest of World currently includes the United Kingdom.

(in thousands of US dollars)

20 Subsequent events

Subsequent events have been evaluated through April 21, 2021, which is the date the consolidated financial statements were available to be issued. There were no significant subsequent events.