

**LINUX PROFESSIONAL INSTITUTE INC.
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

DRAFT as at May 5, 2023

Kwart & Company
Chartered Professional Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of Linux Professional Institute Inc.

I have audited the accompanying consolidated financial statements of Linux Professional Institute Inc., which comprise of the consolidated statement of financial position as at December 31, 2022 and the consolidated statements of changes in net assets, revenue and expenses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Linux Professional Institute Inc. as at December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KWART & COMPANY CHARTERED PROFESSIONAL ACCOUNTANTS

SHAEL J. KWART

Chartered Professional Accountant, Licensed Public Accountant

Markham, Ontario

LINUX PROFESSIONAL INSTITUTE INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022
(EXPRESSED IN U.S. DOLLARS)

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT		
Cash	\$ 2,437,370	\$ 2,894,385
Accounts receivable	171,835	471,999
Due from affiliates	-	10,953
Government remittances receivable	14,908	20,504
Relocation loan	-	10,000
Prepaid expenses	<u>126,975</u>	<u>150,818</u>
	2,751,088	3,558,659
CAPITAL ASSETS (Note 2)	<u>32,122</u>	<u>42,533</u>
	<u>\$ 2,783,210</u>	<u>\$ 3,601,192</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 251,984	\$ 324,587
Prepaid vouchers	<u>8,627</u>	<u>10,407</u>
	<u>260,611</u>	<u>334,994</u>
NET ASSETS		
OPERATING FUND	2,490,477	3,223,665
INVESTED IN CAPITAL ASSETS	<u>32,122</u>	<u>42,533</u>
	<u>2,522,599</u>	<u>3,266,198</u>
	<u>\$ 2,783,210</u>	<u>\$ 3,601,192</u>

APPROVED BY THE BOARD:

 (Signed) Director

 (Signed) Director

LINUX PROFESSIONAL INSTITUTE INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
(EXPRESSED IN U.S. DOLLARS)

	<u>Operating</u> <u>Fund</u>	<u>Invested in</u> <u>Capital</u> <u>Assets</u>	<u>Internally</u> <u>Restricted</u> <u>Funds</u>	<u>2022</u> <u>Total</u>	<u>2021</u> <u>Total</u>
BALANCE , beginning of year	\$ 3,223,665	\$ 42,533	\$ -	\$ 3,266,198	\$ 3,717,431
Excess of expenses over revenue	<u>(733,188)</u>	<u>(10,411)</u>	<u>-</u>	<u>(743,599)</u>	<u>(451,233)</u>
	<u>2,490,477</u>	<u>32,122</u>	<u>-</u>	<u>2,522,599</u>	<u>3,266,198</u>
BALANCE , end of year	<u>\$ 2,490,477</u>	<u>\$ 32,122</u>	<u>\$ -</u>	<u>\$ 2,522,599</u>	<u>\$ 3,266,198</u>

DRAFT as at May 5, 2023

LINUX PROFESSIONAL INSTITUTE INC.
CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(EXPRESSED IN U.S. DOLLARS)

	2022	2021
REVENUE:		
Revenue	\$ 6,840,695	\$ 7,472,450
Less: Testing Direct Costs	<u>(4,319,682)</u>	<u>(4,589,239)</u>
Net Testing Revenue	<u>2,521,013</u>	<u>2,883,211</u>
EXPENSES:		
Operating and maintenance	1,686,609	2,004,400
Payroll and related	949,798	785,790
General and administrative	265,031	329,143
Marketing and advertising	246,863	164,200
Utilities and facilities	61,556	69,923
Loss (gain) on foreign exchange	44,344	(30,916)
Amortization	<u>10,411</u>	<u>11,904</u>
	<u>3,264,612</u>	<u>3,334,444</u>
EXCESS OF EXPENSES OVER REVENUE	\$ <u>(743,599)</u>	\$ <u>(451,233)</u>

LINUX PROFESSIONAL INSTITUTE INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ (743,599)	\$ (451,233)
<u>Items not requiring an outlay of cash:</u>		
Amortization	<u>10,411</u>	<u>11,904</u>
	<u>(733,188)</u>	<u>(439,329)</u>
<u>Changes in non-cash working capital:</u>		
Accounts receivable	300,164	(198,143)
Due from affiliates	10,953	6,608
Government remittances receivable	5,596	6,340
Relocation loan	10,000	(10,000)
Prepaid expenses	23,843	(83,416)
Accounts payable and accrued liabilities	(72,603)	49,068
Prepaid vouchers	<u>(1,780)</u>	<u>10,407</u>
	<u>276,173</u>	<u>(219,136)</u>
CASH FLOWS USED IN OPERATING ACTIVITIES	<u>(457,015)</u>	<u>(658,465)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>-</u>	<u>(11,419)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	<u>-</u>	<u>(11,419)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(457,015)	(669,884)
CASH & CASH EQUIVALENTS, beginning of year	<u>2,894,385</u>	<u>3,564,269</u>
CASH & CASH EQUIVALENTS, end of year	<u>\$ 2,437,370</u>	<u>\$ 2,894,385</u>

LINUX PROFESSIONAL INSTITUTE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

NATURE OF OPERATIONS

Linux Professional Institute Inc. ("LPI") operates internationally serving the community of Linux and open source software users, vendors and developers, in the interest of increasing and supporting professional use of such software throughout the world. The organization seeks to improve the skills and resources of Linux and open source professionals, by providing certification services and setting standards which are relevant, of high quality, and widely accessible.

LPI is incorporated without share capital pursuant to the provisions of the New Brunswick Companies Act as a not-for-profit organization. The organization is tax-exempt under the Income Tax Act (Canada). These consolidated financial statements include all of the activities of Linux Professional Institute Inc, as well as its wholly owned subsidiary Linux Professional Institute Japan K.K. ("LPI Japan"), with the exception of the autonomous affiliates which operate under their own management and are excluded from the financial operations of LPI.

LPI Japan is an incorporated business, which is subject to paying corporate taxes in Japan. LPI Japan was incorporated in 2019, in order to open a bank account in Japan to accept payments from Japan companies who wanted to become training partners of LPI. LPI Japan handles all of the partnership activities in Japan on behalf of LPI, including the sale of exam vouchers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are in accordance with Canadian generally accepted accounting principles.

(a) BASIS OF ACCOUNTING

The organization follows the accrual method of accounting. The accrual basis recognizes revenues as they become available and measurable, using the deferral method to recognize the revenue; expenses are recognized as they are incurred and measurable as a result of goods or services received and the creation of a legal obligation to pay.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements for the organization include the accounts of the organization and LPI Japan drawn up to the reporting date. LPI controls LPI Japan.

Control exists when the organization has existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The organization reassesses control on an ongoing basis.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

(c) FOREIGN CURRENCY TRANSLATIONS

The organization uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income in the current period.

LINUX PROFESSIONAL INSTITUTE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

(d) USE OF ESTIMATES

The preparation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to use estimates and make assumptions that affect the reported amounts of certain assets and liabilities at the date of these financial statements and the reported amounts of certain revenue and expenses during the year. Significant items subject to such estimates and assumptions include the determination of the allowance for uncollectible accounts receivable, the estimated useful life of the capital assets, and the valuation of prepaid vouchers. Actual results may differ from these estimates.

(e) CAPITAL ASSETS

Capital assets are recorded at cost and amortized over their estimated useful lives on a declining balance basis at the following annual rates:

Computer equipment	- 20%
Office equipment	- 20%
Software and website	- 30%
Furniture and fixtures	- 20%

The above rates are reviewed annually to ensure they are still appropriate. Any changes are adjusted for on a prospective basis.

If there is an indication that the fixed assets may be impaired, an impairment test is performed that compares the carrying amount to the net recoverable amount, which is normally determined by estimating the sales less direct costs on an undiscounted basis over the remaining life of the asset. There were no impairment indicators in 2022.

(f) FUND ACCOUNTING

The general activities of the organization are recorded in the operating fund. The operating fund is responsible for the organization's program delivery, administration and maintenance of existing examinations. This fund reports unrestricted sources of revenue.

The Internally Restricted Funds reports only internally restricted resources which are to be used pursuant to guidelines established by the Board of Directors. There are two internally restricted funds:

Technology Infrastructure Fund was established to enhance LPI's website presence, social media, and ERP/Reporting systems.

New Exam Development Fund, formerly Linux Essentials Fund, was established to create a new Cloud exam.

The Invested in Capital Asset Fund reports the assets, liabilities, revenue and expenditures related to the fund's capital assets.

(g) REVENUE RECOGNITION

The organization follows the deferral method of accounting for contributions.

LINUX PROFESSIONAL INSTITUTE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

The organization generates the majority of its revenue from certification examinations. The certification examinations include testing revenue which is recognized at the time when the examination is written. Approximately 62% of the testing revenue comes from one customer.

Examination development revenue is recognized on a project completion basis.

All other revenues of the organization are recognized in the year that the related revenue has been earned.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

(h) MEASUREMENT OF FINANCIAL INSTRUMENTS

The organization initially measures its financial assets and liabilities at fair value.

The corporation subsequently measures all its financial assets and financial liabilities at amortized cost.

Changes in fair value are recognized in excess of revenue over expenses.

Financial assets measured at amortized cost include cash, accounts receivable, due from affiliates, government remittances receivable and relocation loan.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and prepaid vouchers.

The organization has not designated any financial asset or financial liability to be measured at fair value.

(i) CONTRIBUTED SERVICES

Contributed services are not recognized in the financial statements because of measurement uncertainties in determining the fair market value.

(j) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and bank balances.

LINUX PROFESSIONAL INSTITUTE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

2. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2022</u>	<u>Net 2021</u>
Computer equipment	\$ 51,758	\$ 34,432	\$ 17,326	\$ 23,101
Office equipment	15,010	12,056	2,954	3,693
Software and website	120,897	109,654	11,243	14,991
Furniture and fixtures	<u>2,030</u>	<u>1,431</u>	<u>599</u>	<u>748</u>
	<u>\$ 189,695</u>	<u>\$ 157,573</u>	<u>\$ 32,122</u>	<u>\$ 42,533</u>

3. FINANCIAL INSTRUMENTS

In the normal course of its business, the corporation is exposed to risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk resulting from the possibility that a counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The organization is also exposed to credit risk arising from its accounts receivable and due from affiliates. Credit risk is the risk that the counterparty to the transaction will not pay.

The organization is exposed to credit risk in connection with its cash since approximately 88% of the organization's cash at year-end is held at one major financial institution.

The organization is exposed to credit risk in connection with its accounts receivable since approximately 77% of the organization's accounts receivable at year-end is owed by one party.

Liquidity risk

Liquidity risk is the risk that the organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from liabilities such as accounts payable.

LINUX PROFESSIONAL INSTITUTE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(EXPRESSED IN U.S. DOLLARS)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Cash includes \$819,426 cash (2021 - \$476,683 cash) denominated in Canadian dollars, \$8,872 cash (2021 - \$30,901 cash) denominated in Euro currency, and \$170,624 cash (2021 - \$59,910 cash) denominated in Japanese Yen.

Approximately 49% of accounts receivable (2021 - 16%) are denominated in Japanese Yen currency and 2% of accounts receivable (2021 - 0%) are denominated in Euro currency, and are subject to foreign exchange fluctuations.

4. COMMITMENTS

The organization's obligations for the next five years, under existing rent agreements for premises are as follows:

2023	\$	22,978
2024		9,422
2025		-
2026		-
2027		-
		<hr/>
	\$	<u>32,400</u>

5. COVID-19

The recent global outbreak of coronavirus (or COVID-19) is currently creating unprecedented economic and social uncertainty throughout the world. The ultimate impact of the coronavirus outbreak is difficult to predict, but it is likely that coronavirus will have a materially adverse impact on global, national and local economies in the immediate future and that such negative impact is likely to persist for some time. In particular, disruptions to commercial activity across economies due to the imposition of quarantines, remote working policies, "social distancing" practices and travel restrictions, and/or failures to contain the outbreak despite these measures, could materially and adversely impact the organization.

The organization has determined the impact of these events are unknown and are non-adjusting events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2022 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the organization for future periods