



Condensed Interim **Consolidated Financial Statements**

(unaudited)

For the Three and Six Months Ended
September 30, 2023 and 2022
(expressed in thousands of US dollars)

Coveo Solutions Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

As at September 30, 2023 and March 31, 2023

(expressed in thousands of US dollars)

	Notes	September 30, 2023	March 31, 2023
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		167,814	198,452
Trade and other receivables	3	24,767	24,233
Government assistance		8,821	7,142
Prepaid expenses		6,674	8,707
		208,076	238,534
Non-current assets			
Contract acquisition costs		10,422	11,148
Property and equipment		6,269	6,846
Intangible assets	5	9,888	15,107
Right-of-use assets		6,855	7,645
Deferred tax assets		3,755	3,896
Goodwill		25,434	25,642
Total assets		270,699	308,818
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	4	22,262	21,435
Deferred revenue		55,067	55,260
Current portion of lease obligations		2,072	1,929
		79,401	78,624
Non-current liabilities			
Lease obligations		7,876	8,940
Deferred tax liabilities		1,808	2,721
Total liabilities		89,085	90,285
Shareholders' Equity			
Share capital	6	837,189	868,409
Contributed surplus		34,014	25,949
Deficit		(645,396)	(631,988)
Accumulated other comprehensive loss		(44,193)	(43,837)
Total shareholders' equity		181,614	218,533
Total liabilities and shareholders' equity		270,699	308,818

Approved by the Board of Directors

(Signed) Louis Têtu Director (Signed) Fay Sien Goon Director

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

Coveo Solutions Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

For the six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars, except number of shares)

	Notes	Number	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
			\$	\$	\$	\$	\$
Balance as at March 31, 2022		103,747,326	859,944	15,295	(592,256)	(27,547)	255,436
Net loss		-	-	-	(22,452)	-	(22,452)
Foreign currency differences on translation to presentation currency		-	-	-	-	(22,563)	(22,563)
Total comprehensive loss							(45,015)
Share-based payments	7	-	-	11,138	-	-	11,138
Exercise of stock options	7	865,280	2,141	(614)	-	-	1,527
Settlement of share-based awards, net of shares withheld for taxes		55,437	657	(657)	-	-	-
Balance as at September 30, 2022		104,668,043	862,742	25,162	(614,708)	(50,110)	223,086
Balance as at March 31, 2023		105,491,290	868,409	25,949	(631,988)	(43,837)	218,533
Net loss		-	-	-	(13,408)	-	(13,408)
Foreign currency differences on translation to presentation currency		-	-	-	-	(356)	(356)
Total comprehensive loss							(13,764)
Share-based payments	7	-	-	7,800	-	-	7,800
Exercise of stock options	7	515,566	1,374	(394)	-	-	980
Settlement of share-based awards, net of shares withheld for taxes		303,408	2,376	(3,405)	-	-	(1,029)
Shares repurchased and cancelled	6	(3,946,194)	(34,970)	8,617	-	-	(26,353)
Repurchase of stock options	7	-	-	(4,553)	-	-	(4,553)
Balance as at September 30, 2023		102,364,070	837,189	34,014	(645,396)	(44,193)	181,614

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

Coveo Solutions Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

For the three and six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars, except per share data)

	Notes	Three months ended September 30,		Six months ended September 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue	9				
SaaS subscription		29,406	25,469	57,941	49,472
Self-managed licenses and maintenance		-	290	-	614
Product revenue		29,406	25,759	57,941	50,086
Professional services		1,813	2,174	3,810	4,309
Total revenue		31,219	27,933	61,751	54,395
Cost of revenue					
Product		5,323	4,749	10,451	9,507
Professional services		1,484	1,822	3,028	3,799
Total cost of revenue		6,807	6,571	13,479	13,306
Gross profit		24,412	21,362	48,272	41,089
Operating expenses					
Sales and marketing		13,898	14,161	27,358	28,722
Research and product development		8,700	8,963	17,882	18,095
General and administrative		6,814	7,722	13,623	14,815
Depreciation of property and equipment		595	660	1,172	1,352
Amortization and impairment of intangible assets	5	4,199	1,104	5,205	2,265
Depreciation of right-of-use assets		404	396	799	793
Total operating expenses		34,610	33,006	66,039	66,042
Operating loss		(10,198)	(11,644)	(17,767)	(24,953)
Net financial revenue		(1,630)	(1,020)	(3,307)	(1,419)
Foreign exchange gain		(1,260)	(816)	(256)	(1,316)
Loss before income tax expense (recovery)		(7,308)	(9,808)	(14,204)	(22,218)
Income tax expense (recovery)		(855)	125	(796)	234
Net loss		(6,453)	(9,933)	(13,408)	(22,452)
Other comprehensive loss					
Items that may be reclassified to the consolidated statements of loss					
Foreign currency differences on translation to presentation currency		(3,784)	(13,961)	(356)	(22,563)
Total comprehensive loss		(10,237)	(23,894)	(13,764)	(45,015)
Net loss per share – basic and diluted	8	(0.06)	(0.10)	(0.13)	(0.22)

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

Coveo Solutions Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

For the six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars)

	Notes	Six months ended September 30,	
		2023	2022
		\$	\$
Cash flows from (used in) operating activities			
Net loss		(13,408)	(22,452)
Items not affecting cash			
Amortization of contract acquisition costs		2,248	2,199
Depreciation of property and equipment		1,172	1,352
Amortization and impairment of intangible assets	5	5,205	2,265
Depreciation of right-of-use assets		799	793
Share-based payments	7	7,800	11,138
Interest on lease obligations		279	331
Variation of deferred tax assets and liabilities		(765)	196
Unrealized foreign exchange gain		(316)	(1,316)
Changes in non-cash working capital items	11	(1,179)	4,579
		1,835	(915)
Cash flows used in investing activities			
Additions to property and equipment		(626)	(709)
Additions to intangible assets		(21)	(5)
		(647)	(714)
Cash flows from (used in) financing activities			
Proceeds from exercise of stock options		980	1,527
Tax withholding for net share settlement		(1,011)	-
Payments on lease obligations		(1,198)	(1,265)
Shares repurchased and cancelled	6	(26,353)	-
Repurchase of stock options	7	(4,553)	-
		(32,135)	262
Effect of foreign exchange rate changes on cash and cash equivalents		309	(16,888)
Decrease in cash and cash equivalents during the period		(30,638)	(18,255)
Cash and cash equivalents – beginning of period		198,452	223,072
Cash and cash equivalents – end of period		167,814	204,817
Cash		25,275	36,047
Cash equivalents		142,539	168,770

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

1. Incorporation and nature of activities

Coveo Solutions Inc. ("Coveo" or the "Company") is incorporated under the Canada Business Corporations Act. Its head office is located at 3175 Chemin des Quatre-Bourgeois, Suite 200, Quebec, Quebec, Canada. Coveo powers search, recommendations, and generative answering in digital experiences. The Company's Software as a Service ("SaaS") artificial intelligence ("AI") platform and suite of AI and generative AI models are designed to transform digital experiences across commerce, service, website, and workplace applications.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange (the "TSX") under the stock symbol "CVO".

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Certain information and disclosures have been omitted or condensed. The accounting policies and methods of computation described in the annual audited consolidated financial statements for the year ended March 31, 2023 were applied consistently in the preparation of these unaudited condensed interim consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read together with the Company's audited consolidated financial statements for the year ended March 31, 2023.

These condensed interim consolidated financial statements have been approved by the Board of Directors and authorized for issuance on November 6, 2023.

Seasonality of interim operations

The operations of the Company can be seasonal, and the results of operations for any interim period are not necessarily indicative of operations for the full year or any future period.

Use of estimates and judgements

In preparing these unaudited condensed interim consolidated financial statements, management makes judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and the key sources of uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended March 31, 2023.

3. Trade and other receivables

	September 30, 2023	March 31, 2023
	\$	\$
Trade accounts receivable	23,035	22,592
Sales tax receivable	1,200	1,306
Other	610	420
Allowance for expected credit losses	(78)	(85)
	24,767	24,233

4. Trade payable and accrued liabilities

	September 30, 2023	March 31, 2023
	\$	\$
Trade accounts payable	3,661	3,070
Accrued compensation and benefits	13,032	12,755
Sales taxes payable	115	390
Income taxes payable	-	124
Accrued liabilities	5,454	5,096
	22,262	21,435

5. Intangible assets

As of September 30, 2023, following customer attrition experienced as a result of the Company's decision to decrease investment in certain acquired Qubit Digital Ltd ("Qubit") product capabilities, the Company reassessed the value of its customer relationships acquired through the business combination with Qubit. Using a discounted cash flow model with a discount rate of 11.1%, the intangible assets fair value was estimated at \$5,000. Such reassessment resulted in an impairment loss of \$3,200. This loss is included in amortization and impairment of intangible assets in the condensed interim consolidated statement of loss.

Coveo Solutions Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars, except share and per share data and as otherwise indicated)

6. Share capital

The Company's authorized share capital consists of (i) an unlimited number of subordinate voting shares, (ii) an unlimited number of multiple voting shares, and (iii) an unlimited number of preferred shares.

The following table presents the changes in the share capital:

	Six months ended September 30, 2023		Six months ended September 30, 2022	
	Number of shares	Value \$	Number of shares	Value \$
Subordinate voting shares				
Balance at beginning of period	52,445,993	460,755	44,327,654	396,842
Exercise of stock options	812	6	-	-
Conversion from multiple voting shares	2,699,656	20,715	5,200,803	40,453
Settlement of share-based awards, net of shares withheld for taxes	303,408	2,376	55,437	657
Shares repurchased and cancelled under SIB	(3,706,194)	(32,834)	-	-
Shares repurchased and cancelled under NCIB	(240,000)	(2,136)	-	-
Outstanding – end of period	51,503,675	448,882	49,583,894	437,952
Multiple voting shares				
Balance at beginning of period	53,045,297	407,654	59,419,672	463,102
Exercise of stock options	514,754	1,368	865,280	2,141
Conversion to subordinate voting shares	(2,699,656)	(20,715)	(5,200,803)	(40,453)
Outstanding – end of period	50,860,395	388,307	55,084,149	424,790
	102,364,070	837,189	104,668,043	862,742

Substantial issuer bid

On July 12, 2023, the Company repurchased for cancellation 3,706,194 subordinate voting shares (including 480,000 multiple voting shares on an as-converted basis) following the completion of a substantial issuer bid ("SIB") at a price of C\$8.50 per subordinate voting share, for a total consideration of \$23,800. An amount of \$32,344 corresponding to the carrying amount of the shares repurchased has been recorded as a reduction of the share capital and an amount of \$8,544 corresponding to the excess of carrying value of the shares repurchased over the purchased price has been recorded within contributed surplus. The Company incurred transaction costs of \$490 in connection with the SIB, which were recorded as a reduction of share capital.

Normal course issuer bid

On July 12, 2023, the board of directors of the Company authorized, and the TSX approved, a normal course issuer bid ("NCIB") to purchase for cancellation a maximum of 2,559,247 subordinate voting shares over the twelve-month period commencing July 17, 2023, and ending no later than July 16, 2024. Purchases pursuant to the NCIB are made on the open market through the facilities of the TSX or alternative trading systems, at the market price at the time of purchase. From the launch of the NCIB on July 17, 2023 to the end of the quarter on September 30, 2023 (the "NCIB Period"), the Company repurchased for cancellation 240,000 subordinate voting shares for a total consideration of \$2,019. An amount of \$2,092 corresponding to the carrying amount of the shares repurchased has been recorded as a reduction of the share capital and an amount of \$73 corresponding to the excess of carrying value of the shares repurchased over the purchased price has

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been recorded within contributed surplus. The Company incurred transaction costs of \$44 in connection with the NCIB, which were recorded as a reduction of share capital. During the NCIB Period, the Company also repurchased for cancellation under the NCIB 700,000 stock options of the Company for aggregate consideration of \$4,553 at a discount of 5% to the prevailing market price at the time of execution (note 7).

7. Share-based payments

Stock options

The following table presents information about stock options outstanding and exercisable:

	Six months ended September 30, 2023		Six months ended September 30, 2022	
	Number of options	Weighted average exercise price CA \$	Number of options	Weighted average exercise price CA \$
Balance at beginning of period	13,716,309	7.10	14,599,117	6.71
Granted ⁽¹⁾	403,546	8.25	117,000	7.38
Exercised	(515,566)	2.54	(865,280)	2.26
Forfeited	(989,689)	10.45	(332,980)	7.80
Repurchased for cancellation ⁽²⁾	(700,000)	1.81	-	-
Outstanding – end of period	11,914,600	7.37	13,517,857	6.97
Exercisable – end of period	6,762,634	3.39	7,248,682	2.72

(1) Corresponds to 403,546 Performance Stock Options ("PSOs") with performance based on level of achievement of pre-determined non-market conditions. PSOs that will actually vest vary from 0% to 100% of the number granted, with target vesting at 66.6%.

(2) During the NCIB Period, the Company repurchased for cancellation under the NCIB 700,000 stock options of the Company at a discount of 5% to the prevailing market price from two former executive officers, for an aggregate consideration of \$4,553.

The fair value of options granted has been established using the Black-Scholes option pricing model, with the following weighted average assumptions:

	Six months ended September 30, 2023
Exercise price of the option and current price of the underlying share (\$CA)	8.25
Expected term of the option (in years)	4.00
Expected volatility of the underlying share for the expected term of the option	50%
Expected dividend yield on the underlying share for the expected term of the option	Nil
Risk-free interest rate for the expected term of the award	3.88%
Weighted average fair value of option (\$CA)	3.55

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Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars, except share and per share data and as otherwise indicated)

The following table provides summary information on the stock options issued and outstanding as at September 30, 2023:

	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$
Range of exercise prices			
CA\$0.47 to CA\$1.50	1,855,208	2.69	1.19
CA\$2.81 to CA\$4.08	3,448,474	4.98	2.93
CA\$5.00 to CA\$10.80	2,864,576	5.51	7.12
CA\$12.19 to CA\$15.75	3,746,342	4.57	14.70
Balance at end of period	11,914,600	4.62	7.37

Share-based awards

The following tables presents information about restricted share units ("RSUs"), deferred share units ("DSUs") and performance share units ("PSUs") outstanding:

Six months ended September 30, 2023

	RSUs		DSUs		PSUs ⁽¹⁾	
	Number of awards	Weighted average grant date fair value CA\$	Number of awards	Weighted average grant date fair value CA\$	Number of awards	Weighted average grant date fair value CA\$
Balance at beginning of period	3,653,952	9.35	453,624	8.75	184,407	8.01
Granted	404,682	9.42	146,764	10.18	7,500	10.51
Settled	(434,753)	10.76	(35,750)	9.55	-	-
Forfeited	(324,329)	9.84	(100,000)	10.50	(3,000)	8.01
Outstanding – end of period	3,299,552	9.13	464,638	8.76	188,907	8.11

(1) PSUs are based on the level of achievement of pre-determined non-market conditions. PSUs that will actually vest vary from 0% to 150% of the number granted, with target vesting at 100%.

Six months ended September 30, 2022

	RSUs		DSUs		PSUs	
	Number of awards	Weighted average grant date fair value CA\$	Number of awards	Weighted average grant date fair value CA\$	Number of awards	Weighted average grant date fair value CA\$
Balance at beginning of period	2,272,987	13.06	201,621	12.66	-	-
Granted	893,590	7.20	273,154	5.98	-	-
Settled	(55,437)	15.00	-	-	-	-
Forfeited	(244,855)	14.09	(2,174)	15.00	-	-
Outstanding – end of period	2,866,285	11.11	472,601	8.79	-	-

For the three and six months ended September 30, 2023 and 2022

(expressed in thousands of US dollars, except share and per share data and as otherwise indicated)

Share-based payment expense

For the three months ended September 30, 2023, a share-based payment expense of \$4,346 (\$5,342 in 2022) was recorded in the interim condensed consolidated statements of loss and comprehensive loss with a corresponding credit to contributed surplus.

For the six months ended September 30, 2023, a share-based payment expense of \$7,800 (\$11,138 in 2022) was recorded in the interim condensed consolidated statements of loss and comprehensive loss with a corresponding credit to contributed surplus.

8. Net loss per share

The Company has stock options and share-based awards as potentially dilutive securities. Diluted net loss per share excludes all potentially dilutive shares if their effect is anti-dilutive. For the three and six months ended September 30, 2023 and 2022 a net loss was recorded and therefore, all potentially dilutive securities have been excluded from the calculation of the diluted net loss per share because their effect would have been anti-dilutive. Consequently, basic and diluted number of shares is the same.

	Three months ended September 30,		Six months ended September 30,	
	2023	2022	2023	2022
Net loss	(6,453)	(9,933)	(13,408)	(22,452)
Weighted average number of shares outstanding – basic and diluted	102,807,185	104,350,739	104,223,916	104,091,340
Net loss per share – basic and diluted	(0.06)	(0.10)	(0.13)	(0.22)

9. Revenue

The following table presents revenue of the Company by geographical area:

	Three months ended September 30,		Six months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Canada	1,704	1,782	3,295	3,597
United States	23,597	21,042	46,530	41,432
Other	5,918	5,109	11,926	9,366
	31,219	27,933	61,751	54,395

As at September 30, 2023, the transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) of SaaS subscriptions is \$150,538, of which \$93,810 is current and \$56,728 is non-current.

10. Employee compensation

The following table presents employee compensation expenses of the Company, excluding government assistance:

	Three months ended September 30,		Six months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salary and other short-term benefits	21,119	21,452	43,886	43,964
Share-based payments and related expenses	5,016	5,660	8,763	10,135
	26,135	27,112	52,649	54,099

The following table presents share-based payments and related expenses recognized by the Company:

	Three months ended September 30,		Six months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Product cost of revenue	230	210	466	392
Professional services cost of revenue	150	165	313	309
Sales and marketing	897	1,539	937	3,070
Research and product development	1,675	1,688	3,231	3,121
General and administrative	2,064	2,058	3,816	3,243
	5,016	5,660	8,763	10,135

11. Consolidated statements of cash flows

The following table presents the changes in non-cash working capital items:

	Six months ended September 30,	
	2023	2022
	\$	\$
Trade and other receivables	(606)	(575)
Government assistance	(1,713)	3,765
Prepaid expenses	1,958	395
Contract acquisition costs	(1,550)	(2,284)
Trade payable and accrued liabilities	854	(1,063)
Deferred revenue	(122)	4,341
	(1,179)	4,579



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