

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

November 25, 2020

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and nine months ended September 30, 2020 should be read in conjunction with the unaudited condensed consolidated interim financial statements of Pivotree Inc. (the "Company", "our", "we" or "Pivotree") covering the same period, along with the related notes thereto. The financial information presented in this MD&A is derived from the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All amounts are in Canadian dollars except where otherwise indicated. The Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 are filed with Canadian securities regulators and can be accessed through SEDAR at www.sedar.com.

Cautionary Statement on Forward-looking information

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking information**") within the meaning of applicable securities laws. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "budgets", "scheduled", "estimates", "outlook", "forecasts", "projects", "prospects", "strategy", "intends", "anticipates", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will" occur. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Forward-looking information includes, among other things, statements relating to: the proposed expansion of the Company's market position and potential acquisitions; expectations regarding industry trends, overall market growth rates and our growth rates and growth strategies; addressable markets for our products and services; our assessment of market risks; expectations regarding our revenue and the revenue generating potential of our products and services; our business plans and strategies; and our competitive position in our industry.

Forward-looking information, by its nature, is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share and enter new markets and industry verticals; our ability to retain key personnel; our ability to maintain and expand geographic scope; our ability to execute on our expansion plans; our ability to continue investing in infrastructure to support our growth; our ability to obtain any required financing on acceptable terms; compliance with the terms of any debt facilities; the impact of competition; the changes and trends in our industry or the global economy; currency exchange and interest rates; and changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that, while considered by the Company to be appropriate and reasonable as of the date of this MD&A, are subject to known and

unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- our ability to execute on our growth strategies;
- our ability to create and protect unique intellectual property and enter new markets;
- the impact of changing conditions in the global e-commerce market, including (i) increasing competition and (ii) changes in approach in the e-commerce software as a service solution or infrastructure market;
- changes in the expectations, financial condition and demand of our target markets;
- changes in the expectations, competitive positioning and demand amongst major cloud providers;
- changes or increases in the difficulty of avoiding cyber or data security threats, or compliance with data security regulators that may impact our business;
- our ability to continue to execute accretive acquisitions;
- our ability to maintain and build our reputation with clients;
- fluctuations in currency exchange rates and volatility in financial markets;
- developments and changes in applicable laws and regulations; and
- such other factors discussed in greater detail under the "Risk Factors" section of the prospectus of the Company dated October 23, 2020 (the "**Prospectus**").

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in forward-looking information. The opinions, estimates or assumptions referred to above and described in detail in the "Risk Factors" section of the Prospectus available on SEDAR at www.sedar.com should be considered carefully by readers.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date made. Forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), and are subject to change after such date. We disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

The foregoing cautionary statements expressly qualify all forward-looking information contained in this MD&A. Readers should read this MD&A and the "Risk Factors" section of the Prospectus in their entirety and consult their own professional advisors to ascertain and assess the income, tax, legal, risk factors and other aspects of their investment in the common shares of the Company (the "**Common Shares**").

Additional information relating to the Company can be found on our website at www.pivottree.com. The Company's continuous disclosure materials are also available on SEDAR at www.sedar.com.

Overview

Our goal at Pivotree is to help accelerate the future of frictionless commerce. Our objective is to help lead this change over the next decade because we believe in a future where technology, embedded intimately into all aspects of our everyday lives, shapes the interactions with the brands we love. The continued evolution of frictionless commerce will depend on those who lead and inspire that transformation. Converging technologies are driving up consumers' expectations and creating increased pressure on great brands to find new and better ways to connect with their customers. In its best form, frictionless commerce reduces stress on the system, anticipates customers' needs, and delivers personalized products to customers efficiently at optimal prices. Increased efficiencies create an incredible opportunity to reduce our carbon footprint in the process. In addition, great brands are expected to meet the elevated social values of new generations of discerning buyers that include heightened visibility into the origin and source of the goods they are buying. Vast amounts of data will underpin the frictionless economy.

We plan to help shape the future of frictionless commerce by working together with some of the largest retailers and branded manufacturers in North America and by leveraging available technology solutions that facilitate customer engagement, drive transactions, surface insights, and inform consumers' decisions. Converging technologies make it possible to accelerate frictionless commerce faster than ever before and Pivotree's goal is to make these technologies work cohesively for brands and their customers.

Pivotree provides services focused on the design, implementation, management, and maintenance of complex e-commerce solutions for large enterprises. We provide the technical skills necessary to enable the effective use of technologies combined with the business context to leverage a solution to solve our clients' business challenges. We strive to fill the gaps in available technology with our own intellectual property to reduce the barriers to adoption. Our goal is to enable inclusive, immersive and highly personalized experiences for our clients and their customers. We build our products with a view to productizing and scaling technology to lower the costs and reduce the risks of implementing and managing our integrated solutions. Each of our solutions starts with reliable and reputable e-commerce and master data management ("**MDM**") platforms, which run on enterprise grade infrastructure that are customized to meet a variety of client needs, situations, and budgets.

Pivotree has continued to bolster its product offering in an effort to become a North American leader of e-commerce enablement solutions. We strove to accelerate our transformation into a global e-commerce and information management firm through our acquisitions of Spark::Red Inc. ("**Spark::Red**") and ThinkWrap Solutions Inc. ("**ThinkWrap**") in February 2018. Spark::Red and ThinkWrap have respectively brought extensive Oracle ATG Commerce implementation and SAP Hybris services provision capabilities. This expansion in service offerings has been the main driver of considerable growth in both top line revenue and earnings before interest, taxes, depreciation and amortization ("**EBITDA**") since the fiscal year ended December 31, 2018 ("**Fiscal 2018**"). We have also established key partnerships with an extensive network of reputable software vendors, cloud providers, and system implementers, and recently became a certified partner on SAP's Customer Data Cloud Platform. Pivotree is also an AWS Advanced Consulting partner with add-on competencies for Oracle and Retail Workloads.

Many of our clients start by engaging with one aspect of our category or delivery model. For instance, this can be an initial managed service engagement in e-commerce, MDM, or enterprise cloud application management on one of our infrastructure stacks. This would typically start with a migration plan and build or set-up process, and continue with ongoing managed services. These are usually contracted as long-term contracts with monthly recurring revenues based on the size and complexity of the environment being managed. Alternatively, we can begin a new relationship with a professional service project engagement to design, build or configure an e-commerce or MDM application, which is integrated into the client's technology stack. Our customers are charged on a per project basis, depending on the scale and complexity of the proposed solution, and billed on a time and material basis. Additional Non-Recurring Revenues may be earned should a customer choose to include additional functionality outside of the scope of their initial project contract. Many of our largest customers consume services across multiple categories involving both professional services and managed services.

We generate revenue primarily from the sale of our recurring managed services while also offering professional services as a recurring revenue stream and as a project supporting the customer's ongoing transition to digital commerce channels. Managed services are sold on the basis of a minimum monthly committed revenue with overage charges and our professional services are sold primarily on a time and material contract for a specific project or duration. Our managed services business is primarily a multi-year contract with some being annual and most on an

automatic renewal schedule. This results in a relatively smooth revenue curve for managed services, with good visibility into near-term revenue growth. Our goal is to continue to grow revenues arising from our existing customer base and by adding new customers to grow our overall customer base. Our business does have significant seasonal attributes with the fourth quarter being stronger due to the holiday season transaction volumes. The Company operates on a global basis with a mix of U.S. dollars, Canadian dollars and European euros. The consolidated financial reporting is based on the Company's functional currency, being the Canadian dollar. The Company does not currently hedge its exposure to fluctuations in U.S. dollar or other European currency denominated revenues and expenses.

On September 22, 2020, the Company filed a notice of alteration to effect the change of the Company's name from "Reliant Web Hosting Inc." to "Pivotree Inc."

On October 30, 2020, the Company completed an initial public offering of 7,059,000 Common Shares at the offering price of \$8.50 per Common Share (the "**Offering**") and its Common Shares began trading on the TSX Venture Exchange under the symbol "PVT". See "Subsequent Events - (a) Public offering".

In connection with, and prior to, the completion of the Offering, the Company completed the following pre-closing reorganization steps:

- the Company continued from the Province of British Columbia to the Province of Ontario and adopted new articles and a new by-law under the *Business Corporations Act* (Ontario) ("**OBCA**");
- all of the outstanding warrants of the Company were exercised for Class D preferred shares;
- all of the outstanding restricted share awards of the Company were converted into Common Shares on a 1:1 basis;
- all of the outstanding deferred share units of the Company were converted into Common Shares on a 1:1 basis;
- all of the issued and outstanding preferred and special shares of the Company (including Class D preferred shares issued on exercise of outstanding warrants) were converted into Common Shares on a 1:1 basis, and all existing classes of preferred and special shares were cancelled;
- all issued and outstanding Common Shares were subdivided on a 50:1 basis; and
- the Company amalgamated with 1746546 Ontario Inc., 2464732 Ontario Inc. and 2608313 Ontario Inc., which are single purpose holding companies that were incorporated solely to facilitate the completion of preferred share financing rounds previously undertaken by the Company, to form a new corporate entity that continued to be named "Pivotree Inc."

Non-IFRS Measures and Reconciliation of Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures including key performance indicators used by management and typically used by our competitors in the technology industry. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore not necessarily comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. These non-IFRS measures and technology metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including technology industry metrics, in the evaluation of companies in the technology industry. Management also uses non-IFRS measures and technology industry metrics in order to facilitate operating performance comparisons from period to period, the preparation of annual operating budgets and forecasts and to determine components of executive compensation. The

non-IFRS measures and technology industry metrics referred to in this MD&A include, “Recurring and Non-Recurring Revenue”, "Adjusted EBITDA" and "Free Cash Flow".

Key Performance Indicators

Due to our service model, we recognize revenue within managed and professional services based on the recurring nature of the work and the actual effort extended. Both managed and professional services carry a recurring component where we recognize revenues based on the contractual committed fees with contract terms being one to three years, providing for a high degree of visibility into near-term revenues.

Management uses a number of metrics, including the ones identified below, to measure the Company's performance and customer trends, which are used to prepare financial plans and shape future strategy. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

- *Annual Recurring Revenue (ARR)*. We define Annual Recurring Revenue as the annualized equivalent value of the most recent quarter's recurring revenue of all existing managed services and professional services contracts that contain a minimum committed spend with total ARR being inclusive of related overage fees and customer credits as at the date being measured, and excluding any non-recurring set up fees and short-term standalone projects. The revenues captured are related to customer contracts that generally span a one to three-year contract term with most of the managed services being non-cancelable. Almost all of our customer contracts, contributing to ARR, automatically renew unless cancelled by our customers. Our calculation of ARR assumes that customers will renew the contractual commitments on a periodic basis as those commitments come up for renewal. Actual ARR versus new ARR Bookings would be expected to increase with the related overage charges and through the upsell of additional services across our categories. ARR provides us with visibility for consistent and predictable growth to our cash flows. Our strong total revenue growth and in particular our increasing ARR indicates the continued strength in the expansion of our overall client relationship and overall business. ARR will continue to be a key performance indicator for the Company on a go-forward basis. See "Non-IFRS Measures and Reconciliation of Non-IFRS Measures - Recurring and Non-Recurring Revenue" for the recurring revenue in the most recent quarter to support ARR.
- *ARR Bookings*. This is defined as the new contractual bookings with existing and new customers for services that include minimum committed levels that automatically renew and generally span a one to three-year contract term. This amount does not include any projects, set up fees or overages charges. The ARR Bookings conversion to revenue, and ARR, will depend on the time it takes to deploy a given purchased service, which is driven by the complexity of the solution. The actual impact on revenue and ARR is generally expected to contribute higher revenues than bookings for new services, once overage charges are captured through actual results. The revenue conversion may also be minimal as customers amend existing services and on demand rate card for a discounted rate card, in exchange for a longer-term commitment with minimum spend. It is important to note that while this is an indicator of revenue and future potential revenue, it cannot be reconciled to actual revenue recognized.
- *Net Revenue Retention Rate*. We define Net Revenue Retention Rate for a period by considering the group of customers on our platform as of twelve months prior and dividing our ARR attributable to such group of customers at the end of the period by the ARR at the beginning of such period. By implication, this ratio excludes any ARR from new customers acquired during the period, but it does include incremental sales added to the cohort base of customers during the period being measured. The benefits of cross selling and expanding our level of integrations and support is realized when we can achieve high Net Revenue Retention Rates.

Net Revenue Retention Rate and Annual Recurring Revenue for the nine months ended September 30, 2020 are as follows:

	Ending September 30,		YoY Change	
	2020	2019	Change	% Change
Total ARR	48,961,374	40,066,245	8,895,129	22%
YTD ARR Bookings	8,787,915	6,481,107	2,306,808	36%
Net Revenue Retention Rate	113%	96%	17%	N/A

Recurring and Non-Recurring Revenue

"*Recurring Revenue*" represents the value of minimum monthly committed revenues plus related overage, from all existing managed and professional services customer contracts or commitments of the Company, excluding non-recurring implementation and projects with discrete outcomes and deliverables.

"*Non-Recurring Revenues*" represent services that are short-term in nature and include set-up fees for managed services and professional services work related to a traditional design, build and test project running through multiple phases and evolve with the client's strategy.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Recurring.....	12,240,344	10,016,561	2,223,783	22.2%	34,539,482	29,229,735	5,309,747	18.2%
Non Recurring.....	4,002,234	5,202,128	(1,199,894)	-23.1%	12,509,714	14,450,250	(1,940,536)	-13.4%
Total Revenue	16,242,578	15,218,689	1,023,889	6.7%	47,049,196	43,679,985	3,369,211	7.7%

Adjusted EBITDA

Adjusted EBITDA is used by management as a supplemental measure to review and assess operating performance and to provide a more complete understanding of factors and trends affecting our business. Management believes that Adjusted EBITDA is a useful measure of operating performance and our ability to generate cash-based earnings, as it provides a more relevant picture of operating results by excluding the effects of financing and investing activities which removes the effects of interest, depreciation and amortization expenses as non-cash items that are not reflective of our underlying business performance, and other one-time or non-recurring expenses. The Company defines Adjusted EBITDA as net income (loss) excluding taxes, interest and finance costs, amortization and depreciation, restructuring and other, and share based compensation. Management believes that these adjustments are appropriate in making Adjusted EBITDA an approximation of cash-based earnings from operations before capital replacement, financing, and income tax charges. Adjusted EBITDA does not have a standardized meaning under IFRS and is not a measure of operating income, operating performance or liquidity presented in accordance with IFRS and is subject to important limitations. The Company's definition of Adjusted EBITDA may be different than similarly titled measures used by other companies.

The following table reconciles Adjusted EBITDA to net loss for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net Income (loss)	(1,007,656)	(590,907)	(934,110)	(1,987,302)
Depreciation & Amortization ⁽¹⁾	1,071,162	1,455,785	3,309,472	3,402,938
Interest ⁽²⁾	480,084	246,064	1,460,304	661,971
Taxes	(346,500)	171,623	(311,498)	431,622
EBITDA	197,090	1,282,564	3,524,168	2,509,229
Stock-Based Compensation ⁽³⁾	61,170	47,000	133,530	197,000
Restructuring & Other ⁽⁴⁾	594,114	266,765	937,264	1,183,102
Adjusted EBITDA	852,374	1,596,330	4,594,962	3,889,331

Notes:

- (1) Depreciation and amortization expense is primarily related to depreciation expense on right-of-use assets (“ROU assets”), intangibles and property and equipment.
- (2) Interest expense are primarily related to interest and accretion expense on the secured debentures and convertible promissory notes. Included within is also the interest incurred on lease obligations.
- (3) These expenses represent non-cash expenditures recognized in connection with the issuance of share-based compensation to our employees, advisors and directors.
- (4) Restructuring & Other expenses are related to restructuring, IPO costs, extraordinary events that are not considered an expense indicative of continuing operations.

Free Cash Flow

Free Cash Flow is defined as cash provided by (used in) operating activities less additions to property and equipment, deferred development costs and principal lease payments. The following table reconciles our cash flow from (used in) operating activities to Free Cash Flow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Adjusted EBITDA	852,374	1,596,330	4,594,962	3,889,331
Cash Financed Capital Expenditure	18,216	189,588	88,820	581,890
Payment of Capital Leases	367,677	440,645	1,253,721	1,436,723
Deferred Development	203,006	901,673	644,314	1,917,585
Adjusted Free Cash Flow	263,475	64,423	2,608,107	(46,867)

Summary of Factors Affecting our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the "Risk Factors" section of our Prospectus.

Market acceleration of the digital commerce strategy

We intend to continue to drive the transformation to frictionless commerce by scaling and integrating our solutions to meet the needs of both new and existing large enterprise customers. We believe that there is significant upside to market share and to expanding our total addressable market through integrated solutions that both increase share of wallet with our existing customer base and attract new customers. We plan to do this by further developing our products and services as well as continuing to invest in marketing strategies tailored to attract new businesses, mainly within North America. We plan to continue to invest in expanding and evolving our categories to define and accelerate frictionless commerce.

Up-selling with existing customers

Our existing customers represent a significant opportunity to up-sell additional functionality with the level of coverage from our sales and marketing function. We plan to continually invest in category expansion, product development and sales and marketing to add additional solutions for our customers and drive customer satisfaction. Our future revenue growth and our ability to achieve and maintain profitability is dependent upon our ability to maintain existing customer relationships and to continue to cross sell managed and professional services from across our categories.

Scaling our sales and marketing team

Our ability to achieve significant growth in future revenue will largely depend upon the effectiveness of our sales and marketing efforts and our ability to extend our reach to more customers and cover a larger client portfolio. The majority of our sales and marketing efforts are accomplished in-house and we believe the strength of our sales and marketing team is critical to our success. We have invested, and intend to continue to invest meaningfully, in the expansion of our sales force and consequently, we anticipate that our headcount will continue to increase as a result of these investments.

Foreign currency

Our functional and presentation currency is the Canadian dollar, except for our Spark::Red subsidiary which has a U.S. dollar functional currency. Our total results of operations are converted from the functional currency to Canadian dollars. As a result, our results of operations will be adversely impacted by a decrease in the value of the U.S. dollar relative to the Canadian dollar. See the "Risk Factors" section of our Prospectus for a discussion on exchange rate fluctuations and their potential negative effect on our results of operations.

Key Components of Results of Operations

Pivotree has always been primarily operated and managed across two economic entities, with operations in several different countries. The management team is structured to direct the activities of the Company based on the type of service and workforce with certain cross functions groups. The Company is managed globally through departmental leads. As a result, we believe that we have two reporting segments: managed services and professional services. Over time, this may change as the Company grows, and when this occurs, we will reflect the change in our reporting practice.

Revenue

We generate revenue from the following primary sources:

- *Managed Services.* Our customers enter into agreements that provide for recurring service fees. The majority of the customer agreements currently being entered into have a term of one to three years and are non-cancelable or cancelable with a cancellation fee. Generally, all of the customer agreements automatically renew unless cancelled by our customers within the designated time period. The revenue per contract will vary depending upon the size of the infrastructure, the various elements of the overall service, complexity of integrations, the level of application support and the term of the agreement. The minimum monthly service fees are recognized evenly over the life of a contract, commencing on the in-service date and terminating on the end date of the agreement. In addition, monthly overage fees are charged to the customer if their demands exceeded the minimum volumes established.
- *Professional Services.* Our clients generally require support in implementing a platform to run their commerce or data management business requirements. This support can include system integration, application integration, training and any required process-change analysis. These services are purchased independently or at the same time as the managed services and could be delivered over a short period or over a longer period of time through phases that could span multiple years. We have also contracted these services with a monthly minimum commitment as a recurring revenue stream to drive certainty and predictability in our revenues and to provide for optimal utilization of our professional services workforce. These services are not set up charges for managed services. The contracts are typically contracted for specific phases that align with the overall program goals and client budgets, while evolving with their digital strategy requirements. Revenues derived from professional services are recognized over the term in which such services are provided and proportionately to the work performed, typically using a time and material billing arrangement.

Cost of Revenue

Cost of revenue is comprised of costs related to hosting platforms, third-party licenses integrated into the solution and the professional services workforce. Significant expenses included in cost of revenue include employee wages and benefits expenses, data centre and public cloud hosting costs and other third-party license costs to support the managed services.

Operating Expenses

Our primary operating expenses are as follows:

- *General and Administrative.* General and administrative expenses are comprised primarily of employee salaries and benefits expenses for our administrative, executives, finance, legal and human resources teams, rent, travel, share based compensation and general office and administrative expenses, consulting and professional fees and credit impairment losses. Benefits of government programs that are not specific to any single operating expense department are also captured in the general and administrative expenses. Over the short-term, we expect an increase in expenses related to additional one-time and ongoing costs relating to the Offering. We also anticipate increases to general and administrative expenses as we incur the costs of compliance associated with being a public company, including increased accounting and legal expenses. However, as the Company grows, we expect that general and administrative expenses will decrease as a percentage of revenue.
- *Information Technology ("IT") and Operations.* IT and operations expenses are comprised of salaries and benefits for our help desk, project management, infrastructure, applications management and support and workplace IT, technology, travel, internet, software and other technology. With growth, we expect these costs to increase in a step manner which will allow us to support growth of clients and employees. However, we expect that IT and operations expenses will decrease as a percentage of revenue.

- *Sales and Marketing.* Sales and marketing expenses are comprised of employee salaries and benefits related to our sales and marketing teams, travel and advertising and marketing events. To implement our growth strategy, we intend to continue to grow our sales and marketing teams. As the Company continues to grow, we expect sales and marketing expenses to increase, while these expenses may fluctuate from year to year, consistent with our overall growth.
- *Research and Development.* Research and development expenses are comprised primarily of employee salaries and benefits related to our research and development and product team, consulting and professional fees and web hosting fees. Eligible development work is capitalized and deferred based on the asset shifting to production and amortized over its useful life. Our research and development team are focused on both continuous improvement of our existing internal and external facing solutions, as well as developing new products that can drive value on a standalone basis or as integrated modules to further build a platform. Our product team will continue to assess customer demands and viable solutions to problems in order to evolve our existing product and identify new strategic market opportunities. As Pivotree's growth continues, we expect our research and development and product team costs to increase proportionately, however, over time we believe it is reasonable to expect that they would decline as a percentage of revenue.
- *Loss (Gain) on Foreign Exchange.* Loss (gain) on foreign exchange primarily relates to translation of monetary assets and liabilities denominated in foreign currencies being translated into functional currencies at the foreign exchange rate applicable at the end of each period.
- *Amortization and Depreciation.* Amortization and depreciation expense primarily relate to depreciation on property and equipment, intangibles and right-of-use asset. Property and equipment are comprised of furniture and office equipment, computers, data centre equipment, leasehold improvements and land and building. Intangibles relate to capitalized development labour costs and customer lists acquired through acquisitions. Right-of-use asset relates to the adoption of IFRS 16 – Leases ("**IFRS 16**") on January 1, 2019 which requires all major leases to be recognized on the statement of financial position.
- *Restructure and Other.* These costs include costs with respect to one-time events related to employee restructuring, acquisitions, impairments and other one-time non-recurring costs.

Results of Operations

The following table outlines our consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2020 and 2019.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	16,242,578	15,218,689	47,049,197	43,679,985
Cost of revenue.....	7,866,894	6,641,328	21,751,948	19,013,373
Gross profit.....	8,375,684	8,577,361	25,297,249	24,666,612
Operating expenses				
General and administrative.....	2,073,714	1,977,224	5,256,775	5,998,777
Sales and marketing	946,162	926,605	2,305,625	2,888,078
Research and development	459,281	374,341	1,371,375	1,374,229
IT and Operations.....	3,998,987	3,705,001	11,847,995	10,563,895
Interest.....	480,084	246,064	1,460,304	661,971
Loss (gain) on foreign exchange.....	106,336	44,860	54,047	149,302
Amortization and Depreciation	1,071,162	1,455,785	3,309,472	3,402,938
Restructuring and Other.....	594,114	266,765	937,264	1,183,102
	9,729,840	8,996,645	26,542,857	26,222,292
Operating loss	(1,354,156)	(419,284)	(1,245,608)	(1,555,680)
Current taxes.....	204,125	(146,397)	397,125	(373,397)
Deferred taxes.....	142,375	(25,226)	(85,625)	(58,226)
Net income/(loss).....	(1,007,656)	(590,907)	(934,110)	(1,987,302)
Other comprehensive income/(loss)				
Foreign translation adjustment.....	(1,434,384)	24,615	(763,856)	(309,134)
Comprehensive income/(loss).....	(2,442,040)	(566,292)	(1,697,966)	(2,296,436)
Income (Loss) per share - basic	(0.14)	(0.08)	(0.13)	(0.28)
Weighted average number of common shares outstanding - basic.....	7,118,584	7,083,870	7,118,584	7,083,870

Review of Operations for the three and nine months ended September 30, 2020 and 2019

Revenue

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Managed Services.....	11,324,049	9,932,973	1,391,076	14.0%	32,590,094	28,816,654	3,773,440	13.1%
Professional Services..	4,918,529	5,285,716	(367,187)	-6.9%	14,459,102	14,863,332	(404,229)	-2.7%
Total Revenue	16,242,578	15,218,689	1,023,890	6.7%	47,049,197	43,679,985	3,369,211	7.7%

Revenue increased from \$15.2 million to \$16.2 million or 6.7% for the three months ended September 30, 2020 as compared to the equivalent period in the prior year. For the nine months ended September 30, 2020, the revenues were \$47.0 million, compared to \$43.7 million in the prior year, an increase of \$3.3 million or 7.7%. The revenue increase was primarily attributable to strong revenue growth from managed services through increased demand from existing clients and new customers, which helped offset the reduction in professional services as customers put a pause on projects to navigate through COVID-19.

Revenues from managed services increased from \$9.9 million to \$11.3 million or 14.0% in the third quarter of 2020 as compared to the same quarter in 2019 and from \$28.8 million to \$32.6 million or 13.1% for the nine-month period ended September 30, 2020 as compared to the same period in the prior year. The growth can be attributed mainly to the addition of new customers in 2020 and growth in our revenue per customer.

Revenues from professional services decreased by \$0.4 million or 6.9% in the third quarter of 2020 as compared to the same quarter in 2019 and decreased \$0.4 million or 2.7% for the nine-month period ended September 30, 2020 as compared to the same period in the prior year. The third quarter professional services revenues in 2020 also showed a positive trend when compared to the second quarter of 2020, highlighting the bounce back in the demand for professional services through our existing customers.

Cost of Revenue

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Cost of revenue.....	7,866,894	6,641,328	1,225,566	18.5%	21,751,948	19,013,373	2,738,575	14.4%
Percentage of total revenue..	48.4%	43.6%			46.2%	43.5%		

Cost of revenue increased from \$6.6 million to \$7.9 million or 18.5% for the three months ended September 30, 2020 as compared to the equivalent period in the prior year and increased from \$19.0 million to \$21.8 million or 14.4% for the nine months ended September 30, 2020 as compared to the equivalent period in the prior year. The period over period absolute increases in cost of revenue were closely related to the increase in managed services revenue, while professional services costs held flat as revenue declined due to the COVID-19 economic impact. In addition, the professional services costs were also impacted by one-time costs related to year to date accruals for variable pay and vacation.

Gross Profit

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Gross Profit.....	8,375,684	8,577,361	(201,677)	-2.4%	25,297,249	24,666,612	630,637	2.6%
Percentage of total revenue..	51.6%	56.4%			53.8%	56.5%		

Gross profit, being revenue less cost of revenues, decreased from \$8.6 million to \$8.4 million and decreased from 56.4% of revenue to 51.6% of revenue for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. For the nine-month period ended September 30, 2020, gross profit increased from \$24.7 million to \$25.3 million, but reduced from 56.5% of revenue to 53.8% of revenue for the equivalent nine-month comparative period from prior year. Growth was delivered by managed services which helped offset the COVID-19 impact on professional services. Contributing to the percentage of revenue decline is the professional services impact as mentioned, in addition to increased public cloud costs required to grow the managed services segment, contributing to lower capital expenditure requirements.

Operating Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
	\$	\$	\$	%	\$	\$	\$	%
General and administrative....	2,073,714	1,977,224	96,490	5%	5,256,775	5,998,777	(742,002)	-12%
Sales and marketing.....	946,162	926,605	19,557	2%	2,305,625	2,888,078	(582,452)	-20%
Research and development	459,281	374,341	84,939	23%	1,371,375	1,374,229	(2,853)	0%
IT and Operations.....	3,998,987	3,705,001	293,986	8%	11,847,995	10,563,895	1,284,100	12%
Loss (gain) on foreign exchange.....	106,336	44,860	61,477	137%	54,047	149,302	(95,255)	-64%
Amortization and Depreciation.....	1,071,162	1,455,785	(384,623)	-26%	3,309,472	3,402,938	(93,466)	-3%
Restructuring and Other.....	594,114	266,765	327,349	123%	937,264	1,183,102	(245,837)	-21%
Interest.....	480,084	246,064	234,020	95%	1,460,304	661,971	798,333	121%
Total operating expenses...	9,729,840	8,996,646	733,194	8%	26,542,858	26,222,292	320,567	1%

General and Administrative Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
	\$	\$	\$	%	\$	\$	\$	%
General and administrative....	2,073,714	1,977,224	96,490	4.9%	5,256,775	5,998,777	(742,002)	-12.4%
Percentage of total revenue...	12.8%	13.0%			11.2%	13.7%		

General and administrative expenses increased from \$2.0 million to \$2.1 million or 4.9% for the three months ended September 30, 2020 as compared to the equivalent period in the prior year and decreased from \$6.0 million to \$5.3 million or 12.4% for the nine months ended September 30, 2020 as compared to the equivalent period in the prior year. The primary reason for this decrease in the nine months comparative periods is the government support that was leveraged in fiscal 2020. In addition, the third quarter included a year to date bonus accrual and higher than typical provision for bad debt. Our general and administrative expenses as a percentage of total revenue decreased

slightly from 13.0% to 12.8% from the three months ended September 30, 2019 to the three months ended September 30, 2020 and decreased from 13.7% to 11.2% from the nine months ended September 30, 2019 to the nine months ended September 30, 2020.

Sales and Marketing Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Sales and marketing	946,162	926,605	19,557	2.1%	2,305,625	2,888,078	-582,452	-20.2%
Percentage of total revenue.	5.8%	6.1%			4.9%	6.6%		

Sales and marketing expenses held fairly flat at roughly \$0.9 million, with a small 2.1% increase for the three months ended September 30, 2020 as compared to the equivalent period in the prior year and decreased from \$2.9 million to \$2.3 million or 20.2% for the nine months ended September 30, 2020 as compared to the equivalent period in the prior year. The decrease was due to a reduction in marketing spend and travel as related activities were limited by COVID-19. Our sales and marketing expenses as a percentage of total revenue decreased from 6.1% to 5.8% from the three months ended September 30, 2019 to three months ended September 30, 2020 and decreased from 6.6% to 4.9% from nine months ended September 30, 2019 to nine months ended September 30, 2020. The Q3 sales and marketing expenses were impacted by the inclusion of a year to date accrual for variable compensation.

Research and Development Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Research and development ...	459,281	374,341	84,939	22.7%	1,371,375	1,374,229	-2,853	-0.2%
Percentage of total revenue...	2.8%	2.5%			2.9%	3.1%		

Research and development expenses increased to \$0.5 million from \$0.4 million for the three months ended September 30, 2020 as compared to the equivalent period in the prior year and held fairly flat at \$1.4 million for the nine months ended September 30, 2020 as compared to the equivalent period in the prior year. Contributing to the quarter expense increase, a year to date accrual for variable compensation was recorded. Our research and development expenses as a percentage of total revenue increased from 2.5% to 2.8% from three months ended September 30, 2019 to three months ended September 30, 2020 and decreased from 3.1% to 2.9% from nine months ended September 30, 2019 to six months ended September 30, 2020.

IT and Operations

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
IT and Operations.....	3,998,987	3,705,001	293,986	7.9%	11,847,995	10,563,895	1,284,100	12.2%
Percentage of total revenue...	24.6%	24.3%			25.2%	24.2%		

IT and operations expenses increased from \$3.7 million to \$4.0 million or 7.9% for the three months ended September 30, 2020 as compared to the equivalent period in the prior year and increased from \$10.6 million to \$11.8

million or 12.2% for the nine months ended September 30, 2020 as compared to the equivalent period in the prior year. The increase is primarily due to scaling of the resources to support the Cloud Ops services and a year to date accrual for variable compensation. Our IT and operations expenses as a percentage of total revenue increased from 24.3% to 24.6% from three months ended September 30, 2019 to three months ended September 30, 2020 and decreased from 24.2% to 25.2% from nine months ended September 30, 2019 to nine months ended September 30, 2020.

Loss/Gain on Foreign Exchange

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Loss (gain) on foreign exchange.....	106,336	44,860	61,477	137.0%	54,047	149,302	-95,255	-63.8%
Percentage of total revenue.	0.7%	0.3%			0.1%	0.3%		

Foreign exchange loss/gain primarily relates to translation of monetary assets and liabilities denominated in foreign currencies being translated into functional currencies at the foreign exchange rate applicable at the end of each period. The change in foreign exchange loss/gain is primarily attributable to the change in Canadian dollar compared to the U.S. dollar for the periods presented.

Amortization and Depreciation

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Amortization and Depreciation...	1,071,162	1,455,785	-384,623	-26.4%	3,309,472	3,402,938	-93,466	-2.7%
Percentage of total revenue...	6.6%	9.6%			7.0%	7.8%		

Depreciation expense was \$1.1 million and \$3.3 million, respectively for the three- and nine-month periods ended September 30, 2020 compared to \$1.4 million and \$3.4 million for the comparable periods in 2019. The amortization and depreciation for 2020 reflects the impact of additions to property and equipment and intangibles from 2019 and 2018. The 2019 amortization and depreciation expense in the third quarter was impacted by adjustments to fair-market value of intangible assets of approximately \$0.3 million. Our depreciation expense as a percentage of total revenue decreased from 9.6% to 6.6% from three months ended September 30, 2019 to three months ended September 30, 2020 and decreased from 7.8% to 7.0% from nine months ended September 30, 2019 to nine months ended September 30, 2020.

Non-Operating Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2020	2019	Change	Change	2020	2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Restructure and other.....	594,114	266,765	327,349	122.7%	937,264	1,183,102	-245,837	-20.8%
Interest.....	480,084	246,064	234,020	95.1%	1,460,304	661,971	798,333	120.6%

Restructure and Other Expenses

Restructure and other expenses were \$0.6 million and \$0.9 million, respectively for the three- and nine-month periods ended September 30, 2020 compared to \$0.3 and \$1.2 for the comparable periods in 2019. 2020 third quarter restructure and other expenses are primarily related to expenses related to the Offering process. Prior year restructuring included expenses related one-time events related to earnout payments for the acquisitions plus other one-time events related to restructuring.

Interest

Interest expense was \$0.5 million and \$1.5 million, respectively for the three- and nine-month periods ended September 30, 2020 compared to \$0.2 million and \$0.7 million for the comparable periods in 2019. The increase in interest expenses is primarily due the addition of \$9 million of new debt with related party.

Selected Annual Information

	Fiscal years ended December 31,	
	2019	2018
	\$	\$
Revenue.....	59,686,432	49,805,375
Net Income (Loss).....	(2,899,591)	(2,076,091)
Income (Loss) per share - basic.....	(20.44)	(14.90)
Total assets.....	44,155,964	41,602,461
Total long-term liabilities.....	10,344,108	6,033,866

Total Assets

Total assets increased \$2.6 million or 6.1% from Fiscal 2018 to fiscal year ended December 31, 2019 ("**Fiscal 2019**"), with right-of-use assets accounting for \$1.7 million of the increase, through the adoption of IFRS 16. Prepaid expenses increased by \$1.3 million primarily due to an advance payment of public cloud services to support a client solution.

Total Long-term Liabilities

Total long-term liabilities increased \$4.3 million or 71.4% from Fiscal 2018 to the Fiscal 2019. The main drivers of the increase were the amended and restated debt with the Bank of Montreal ("**BMO**"), which was offset by a shift of \$3.0 million earn-outs payable on acquisitions as performance targets were exceeded, and in addition, \$1.7 million of loans becoming current which offset an increase in lease liabilities due to the adoption of IFRS 16.

Key Statement of Financial Position Information

	September 30, 2020	Balance as of		Change	Change
		December 31, 2020	Change		
	\$	\$	\$	%	
Cash and cash equivalents	9,510,477	2,984,657	6,525,820	218.6%	
Total assets	46,539,584	44,155,964	2,383,620	5.4%	
Total liabilities	32,462,397	29,155,914	3,306,483	11.3%	
Total long-term liabilities	19,732,029	10,344,109	9,387,920	90.7%	

Total Assets

Total assets increased \$2.4 million or 5.4% from December 31, 2019 to September 30, 2020. The increase was driven by cash raised through loan proceeds from Beedie Investments Ltd. ("**Beedie**") and the existing BMO revolving credit facility (the "**BMO Credit Facility**"), offset by the ongoing depreciation of intangibles and property and property and equipment, as new capital asset acquisition was limited in fiscal 2020.

Total Liabilities

Total liabilities increased \$3.3 million or 11% from December 31, 2019 to September 30, 2020. The increase was related to the debt financing activities noted above, offset by earnout payments on acquisitions, payment of related party loan and ongoing payments to draw down the lease liabilities.

Quarterly Results of Operations

The following table sets forth selected unaudited quarterly statements of operations data for each of the last seven quarters, starting January 1, 2019 and ending September 30, 2020. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	Three months ended						
	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2020	2020	2020	2019	2019	2019	2019
	\$	\$	\$	\$	\$	\$	\$
Managed Services.....	11,324,049	10,984,540	10,281,505	10,682,296	9,932,973	9,544,955	9,338,726
Professional Services.....	4,918,529	3,910,568	5,630,005	5,324,151	5,285,716	5,181,371	4,396,245
Total Revenue.....	16,242,578	14,895,108	15,911,510	16,006,447	15,218,689	14,726,326	13,734,970
Net income (loss).....	(1,007,656)	279,463	(205,917)	(912,289)	(590,907)	(542,633)	(853,762)
Income (Loss) per share - basic.....	(0.14)	1.97	(1.45)	(6.42)	(4.16)	(3.83)	(6.04)

Revenue

Our total quarterly revenue increased 6.7% in the third quarter from the third quarter of prior year through the 14% growth of revenues in our managed services business more than offsetting the year on year slow-down in our professional services business. Professional services delivered 26% quarter over quarter sequential growth, a recovery from the COVID-19 pandemic. We cannot assure you that this pattern of sequential growth in revenue will continue.

Net income (loss)

Net income decreased in the third quarter primarily due to higher operating expenses of which \$1.7M was attributed to IPO cost, year-to-date adjustment related to variable compensation and to a lesser degree a provision for bad debt.

Liquidity, Capital Resources and Financing

Overview

The general objectives of our capital management strategy are to preserve our capacity to continue operating, provide benefits to our stakeholders, allow room for acquisitions and provide an adequate return on investment to our shareholders by selling our services at a price that is commensurate with the level of operating risk assumed by us. We thus determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on

a timely basis depending on changes in the economic environment and risks of the underlying assets. We are currently subject to working capital and minimum cash requirements through our credit agreements.

Working Capital

Our primary source of cash flow is revenue from operations and debt financing through the subordinated and secured debentures. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analysis on a regular basis.

Working capital surplus as at September 30, 2020 was \$7.9 million.

In addition to the cash balance of \$9.5 million as at September 30, 2020, the Company has an additional \$3 million available from the BMO Credit Facility that may be drawn to meet ongoing working capital requirements. The BMO Credit Facility may be drawn in Canadian dollars at the Canadian prime lending rate plus applicable margin. Our principal cash requirements are for working capital. Given our existing cash and credit facilities, along with the proceeds raised from the Offering, we believe there is sufficient liquidity to manage future working capital requirements, to meet our current and short-term financial obligations as they become due, and to support our growth plans.

Cash Flows

The following table presents cash and cash equivalents as at September 30, 2020 and 2019, and cash flows from operating, investing, and financing activities for the nine months ended September 30, 2020 and 2019:

	Nine months ended September 30,	
	2020	2019
	\$	\$
Cash and cash equivalents, beginning of period ...	2,984,657	3,202,819
Net cash provided by (used in):		
Operating activities.....	3,445,036	2,328,450
Investing activities.....	(4,864,575)	(3,845,716)
Financing activities.....	7,945,359	(449,515)
Net increase (decrease) in cash and cash	6,525,820	(1,966,781)
Cash and cash equivalents, end of period	9,510,477	1,236,038

Cash Flows Used in/from Operating Activities

Cash flows from operating activities for the nine months ended September 30, 2020 was \$3.4 million compared to cash flows used from operating activities of \$2.3 million for the nine months ended September 30, 2019. The increase in cash flows from operating activities was primarily the result of higher net income after adjusting for non-cash stock-based compensation for the comparative periods.

Cash Flows Used in Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2020 was \$4.9 million compared to \$3.8 million for the nine months ended September 30, 2019. The increase in cash outflows for investing activities of \$1.1 million was due to a final earnout payment for the acquisitions made. This reduction was partially offset with reduced spend in capital expenditures and capitalization of development work as a portion of the research and development team shifted to operational roles.

Cash Flows from Financing Activities

Cash flows from financing activities for the nine months ended September 30, 2020 were \$7.9 million compared to cash usage of \$0.4 million for the nine months ended September 30, 2019. The increase in cash inflows from financing activities of \$8.3 million was mainly due to \$12.6M of loan proceeds from Beedie and the existing BMO Credit Facility. The proceeds were partially used to repay the \$2.2 million advance from related parties in the prior period.

Use of Proceeds from the Offering

The Company's use of proceeds from the IPO has changed from the disclosure set forth in the "Use of Proceeds" section of the IPO Prospectus to the date of this MD&A. The Company used a portion of the proceeds to fully repay its non-revolving term loan with Beedie as mentioned in further detail within the "Subsequent Events" section of this MD&A.

Contractual Obligations

During the three months ended September 30, 2020, there were no significant changes in our contractual obligations

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements. Except for operating leases not recognized as right-of-use assets under IFRS 16 - Leases, all of our liabilities and commitments are reflected as part of our statement of financial position. From time to time, we may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

Related Party Transaction

We have no related party transactions, other than those noted in our consolidated financial statements, which are summarized below. These related party transactions are with key members of management and directors of the Company. Compensation expenses for these persons for the nine months ended September 2020 and 2019 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Professional & Consulting	35,291	78,376	113,598	188,799
Management Fees	62,500	62,500	250,500	187,500
Share-based compensation	-	-	-	-
Travel	-	5,143	1,604	8,893
Interest & Fees	-	70,575	114,828	116,602
Human resources expenses	-	5,650	-	45,200

Subsequent Events

(a) Public offering

Effective October 30, 2020, the Company closed its Offering of 7,059,000 pre-forward split Common Shares of the Company at a price of \$8.50 per Common Share for total gross proceeds of \$60,001,500. Additionally, Canaccord Genuity Corp., as lead underwriter, National Bank Financial Inc., Cormark Securities Inc. and Paradigm Capital Inc., collectively, the underwriters of the Offering, executed an over-allotment option to purchase an additional 1,058,850 Common Shares of the Company at a price of \$8.50 per Common Share for additional gross proceeds of \$9,000,225

(the "**Over-Allotment Option**"). Total costs of the Offering and Over Allotment Option were \$4,349,329.

In connection with, and prior to, the filing of the prospectus, the Company implemented the following pre-closing reorganization steps. The Company was continued from the Province of British Columbia to the Province of Ontario and adopted new articles and a new by-law under the OBCA. All outstanding warrants were exercised for Class D preferred shares. All outstanding restricted share awards were converted into Common Shares on a 1:1 basis. All outstanding deferred share units were converted into Common Shares on a 1:1 basis. All issued and outstanding preferred and special shares (including Class D preferred shares issued on exercise of outstanding warrants) were converted into Common Shares on a 1:1 basis, and all existing classes of preferred and special shares were cancelled. All issued and outstanding Common Shares were subdivided on 50:1 basis. The Company amalgamated with 1746546 Ontario Inc., 2464732 Ontario Inc. and 2608313 Ontario Inc., which are single purpose holding companies that were incorporated solely to facilitate the completion of preferred share financing rounds previously undertaken by the Company, to form a new corporate entity that continued to be named "Pivotree Inc."

(b) Repayment of non-revolving term loan

On November 16, 2020, the Company fully repaid its non-revolving term loan with Beedie Investments Ltd. in the total amount of \$10,241,857, comprised of a principal amount of \$9,000,000, an early payment penalty in the amount of \$1,000,000 and accrued interest in the amount of \$241,857, pursuant to a credit agreement dated February 14, 2020 entered into between the Company and Beedie.

(c) BMO Loan

On September 30, 2020, the Company entered into a term sheet with BMO to revise the terms of the BMO Credit Facility. The Company's current BMO Credit Facility will be replaced with one committed revolving facility (the "**Committed Revolving Facility**") for up to \$25 million of revolving credit, which may be drawn by way of Canadian Dollar Loans or U.S. Dollar Loans, or issuance of Letters of Credit. The Company may also obtain a \$1,000,000 treasury risk line of credit to be used at the discretion of BMO for hedging agreements (the "**Hedging Agreement Facility**"), and a \$250,000 line of credit in respect of corporate MasterCards to be issued to Company employees for corporate purposes, which together with the Committed Revolving Facility and the Hedging Agreement Facility, collectively form the "Amended BMO Facility".

(d) Stock Options

Subsequent to September 30, 2020 the Company will record an employee stock-based compensation expense for the issued stock options. Stock option expenses were not recorded in prior periods as options are incentive-based when certain performance-based targets are achieved such as the sale of the Company or in the event of an Offering. The fair value of the options granted will be calculated using the Black-Scholes method, using private market comparables and the opinion of third party agents who regularly facilitate such transactions. Assumptions to be used will include: strike price of \$1.00 - \$2.31; volatility of 41.33%; risk-free rate of 1.25%; and a dividend yield of 0%.

Financial Instruments and Other Instruments

Credit Risk

Generally, the carrying amount in our consolidated statement of financial position exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

Our credit risk is primarily attributable to our cash and cash equivalents and trade receivables. We do not require guarantees from our customers. Credit risk with respect to cash and cash equivalents is managed by maintaining balances only with high credit quality financial institutions.

Due to our diverse customer base, there is no particular concentration of credit risk related to our trade receivables. Moreover, balances for trade receivables are managed and analyzed on an ongoing basis to ensure allowances for doubtful accounts, which are established and maintained at an appropriate amount.

We estimate anticipated losses from doubtful accounts based upon the expected collectability of all accounts receivable, which estimate takes into account the number of days past due, collection history, identification of specific customer exposure and current economic trends. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the present value of the estimated future cash flow. Impairment losses are charged to general and administrative expense in the consolidated statements of loss and comprehensive loss. Receivables for which an impairment provision was recognized are written off against the corresponding provision when it is deemed uncollectible.

The maximum exposure to credit risk at the date hereof is the carrying value of each class of receivables mentioned above. We do not hold any collateral as security.

Foreign Currency Exchange Risk

We are exposed to currency risk due to financial instruments denominated in foreign currencies. The Company's primary exposure with respect to foreign currencies is from Canadian dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and borrowings in transactional currency that is other than Canadian dollars. The net carrying value of these Canadian denominated balances held in entities with U.S. dollars as their transactional currency as at September 30, 2020 and 2019 presented in U.S. dollars is as follows:

	Sept 2020 US\$	Fiscal 2019 US\$
Cash and cash equivalents.....	5,603,677	2,052,471
Trade and other receivables.....	5,095,962	3,273,424
Trade and other payables.....	1,314,113	1,822,727
Borrowings.....	-	-

We have not entered into arrangements to hedge our exposure to currency risk.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review these estimates on an ongoing basis based on management's best knowledge of current events and actions that we may undertake in the future. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgments are outlined below. Management has determined that we operate in a single operating and reportable segment.

Revenue Recognition

On January 1, 2018, the Corporation adopted IFRS 15 – Revenue from Contracts with Customers ("**IFRS 15**") using the cumulative effect method; therefore, comparative information has not been restated. The adoption of IFRS 15 did not result in any changes to the Company's accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company's consolidated financial statements.

We implemented the new revenue standard which required revenue to be recognized in a manner that depicts the transfer of promised services to customers and at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;

- allocate the transaction price; and
- recognize revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company derives revenue from managed and professional services.

Managed Services

Managed service revenues are derived from providing a monthly recurring service. The services include infrastructure deployment and management, web and application hosting, 24/7 access to experts for system and application triage, application support, configuration management, and security. Managed services fees are structured with a minimum level of spend based on environment size and minimum level of support provided. For any overage, a price list is available to charge for any overage. The monthly fee is recognized as revenue on a monthly basis based on the minimum commitment and overage charges. With new deployments, a one-time fee could be established which would be recognized as revenue over the term of the deployment period. The fee is established based on the up-front third-party costs and effort required to deploy the system and is generally fixed in nature.

Billing for the minimum commitment is issued at the start of the service period. Overage charges are issued after the service period, once actual volumes are available. In some instances, future months committed fees are pre-billed and recorded as a receivable with future month services recorded as deferred revenue.

Costs associated with managed services include data centres, public cloud, third-party licensing for monitoring and security solutions. A shared service centre is utilized where support is required for infrastructure, application support and triage.

Professional Services

Services revenues are derived from professional services that include designing, developing, implementing, integrating, and training. Our professional service contracts also contain some production support services with monthly set fees. Professional services revenues are recognized over time as services are rendered. Almost all of our projects are performed on a time and materials basis. A very small portion of our revenues are derived from projects performed on a fixed fee. For time and material projects, revenues are recognized and billed by multiplying the number of hours our professionals incurred in the performance of the project by the hourly rate card contracted. For fixed fee contracts based on milestones and specific deliverables, revenues are recognized and billed based on the completion of deliverables or in the case of fixed fee contracts based on term, revenue is recognized across the term based on the monthly fee set in the contract.

Certain costs incurred by the Company for subcontractors and other expenses that are recoverable directly from clients are billed to our clients and therefore included in revenue based on the revenue recognition method identified above.

Costs associated with professional services revenue include all direct labour and subcontract costs and those indirect costs related to contract performance such as benefits, travel expenses and other expense reimbursements. Non-billable labour and expenses associated with employee development and administration directly attributed to our dedicated professional services workforce would also be included in the labour cost for professional services.

Selling, general and administrative costs are charged to expenses as incurred and below gross margin.

In conjunction with both professional and management services provided, we receive commissions or margins on license resale. The net margin or commission on resale is accrued to revenues as earned.

Share-Based Payments

Stock-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Stock-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount for

equity settled awards is recorded to contributed surplus. The fair value of options is determined using the Black-Scholes option pricing model and other market valuation methods. For employee share options, the number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. The assumptions and estimates used are further outlined in the stock options note.

Change in Accounting Policies

Leases

IFRS 16 introduced a single, on-balance sheet accounting approach for leases. Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach for recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings as January 1, 2019.

Comparative information has not been restated and continues to be reported under IAS17 – Leases.

Under the new standard the Company assesses whether at contract inception, such contract contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control or use an identified asset for a period of time in exchange for consideration.

The Company records a right-of-use asset and lease liability at the lease commencement date. The right-of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Payments included in the measurements of the liability include fixed payments and payments expected to be made where a renewal/extension option is reasonably certain to be exercised. The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The liability is re-measured when there is a change in the future lease payments arising from the exercise of extension options, changes in the assessment of extension options reasonably expected to be excised, renegotiations with lessors and contract amendments, changes in the scope of a lease due to certain contract rights being exercised, and changes in assessments of termination options reasonably expected to be exercised.

The Company elected to record the right-of-use assets based on the corresponding lease liability. In addition, the Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial applications short term leases.

Impacts on Financial Statements

On initial transition, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Right-of-use assets and lease liabilities of \$2,282,955 were recorded on January 1, 2019. There was no net impact on opening retained earnings on adoption.

The following is a table that reconciles the Company's operating lease obligations at December 31, 2018 as previously disclosed in the Company's 2018 Consolidated Financial Statements to the IFRS 16 lease liability recognized on January 1, 2019. The discount rate applied on transition was 5.35%.

Commitments, December 31, 2018	\$3,050,684
Less: Non-lease commitments	(522,021)
Undiscounted lease obligation at January 1, 2019	2,528,663
Discount	(245,708)
Balance, right-of-use asset and lease liabilities January 1, 2019	\$2,282,955

During the year ended December 31, 2019, the Company recognized \$96,201 of interest costs from these leases.

Commencing January 1, 2019, there will be a decrease to operating costs and increases to finance costs associated with the interest accretion on the lease liability and depreciation expense related to the right-of-use asset.

The cumulative effect of the changes made to the January 1, 2020 consolidated statement of financial position for the adoption of IFRS 16 is as follows:

	Balance as at 31-Dec-18	IFRS 16 adjustments	Balance as at 01-Jan-19
Assets			
Current Assets:			
Other Current Assets	-	-	-
Non-current assets:			
Right-of-use-assets, net	-	2,282,955	2,282,955
Other non-current assets	-	-	-
Liabilities			
Current liabilities:			
Deferred lease incentives.....	-	-	-
Lease liabilities.....	-	2,282,955	2,282,955
Non-current liabilities:			
Deferred lease incentives.....	-	-	-
Lease liabilities.....	-	-	-
Equity			
Deficit	-	-	-

Foreign Currency Exchange (“FX”) Rates

There are material transactions in U.S. dollars, given the operating structure of the business and the clients being serviced. Approximately 75% of our revenues and 50% of our expenses are incurred in U.S. dollars and this drives an impact to our financial results based on fluctuations in the U.S. dollar to Canadian dollar exchange rate. The average third quarter exchange rate for U.S. dollars to Canadian dollars for the three-month period ended September 30, 2020 was 1.33, as compared to 1.32 for the same period in the prior year. As a result, there was a favourable impact of \$0.1 million in total revenues and \$0.0 million in net loss in the third quarter versus prior year. This implies that total revenue growth in the third quarter versus prior year was 6.0% in Local Currency, as opposed to 6.7% noted above, inclusive of foreign exchange impacts. The following tables capture these impacts.

<u>Foreign Exchange (F/X) Rates</u>	<u>3-month Avg.</u>
Three months ended September 30, 2019	1.3203
Three months ended September 30, 2020	1.3329

FX Rates

	Three months ended September 30,			
	2019 (as reported)	2020 (as reported)	2020 F/X Impact	2020 (at prior period F/X rate)
	\$	\$	\$	\$
Revenue	15,218,689	16,242,578	(115,157)	16,127,422
Cost of revenue	6,641,328	7,866,894	(37,183)	7,829,711
Gross Profit	8,577,361	8,375,684	(77,974)	8,297,711
Operating expenses	8,996,645	9,729,840	(45,988)	9,683,852
Taxes (Current and Deferred)	(171,623)	346,500	-	346,500
Net Income/(Loss)	(590,907)	(1,007,656)	(31,985)	(1,039,641)

Outstanding Share Information

The company is currently authorized to issue an unlimited number of Shares. As of the date hereof and inclusive of the subsequent event of the Offering, there are 24,684,123 Common Shares, and 1,921,400 options issued and outstanding.