



PIVOTREE INC.
Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and
2022
(Expressed in Canadian dollars unless otherwise stated)
(Unaudited)

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Notice of no auditor review of Interim Condensed Consolidated Financial Statements

Under National Instrument 51-102, if an auditor has not performed a review of the interim condensed consolidated financial statements required to be filed, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Pivotree Inc. (“Pivotree” or the “Company”) have been prepared by management and approved by the Audit Committee and Board of Directors of Pivotree.

The Company’s independent auditors have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity’s auditors.

PIVOTREE INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2023 and December 31, 2022
(Expressed in Canadian dollars)
(Unaudited)

		September 30, 2023	December 31, 2022
	Notes	\$	\$
ASSETS			
Current assets			
Cash		8,969,128	17,346,028
Term deposits		1,347,800	-
Accounts receivable	3	12,382,385	17,759,740
Income taxes receivable		66,175	146,878
Prepaid expenses and other current assets	4	2,251,497	2,546,891
		25,016,985	37,799,537
Property and equipment	5	3,421,674	3,432,343
Right-of-use assets	6	961,780	1,252,451
Deferred income tax asset		106,328	106,328
Intangible assets	7	8,177,947	11,675,999
Goodwill	8	29,410,932	29,486,561
Total Assets		67,095,646	83,753,219
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	3,922,400	11,488,741
Deferred revenue		2,004,838	3,551,529
Current portion of lease liabilities	10	765,578	905,298
Current portion of earnouts payable on acquisitions	20	-	1,558,070
		6,692,816	17,503,638
Lease liabilities	10	405,544	775,171
Total liabilities		7,098,360	18,278,809
Non-current portion of earnouts payable on acquisitions		-	-
Share capital	12	93,544,441	94,262,592
Obligation to issue shares		835,212	-
Contributed surplus		3,715,685	3,136,558
Deficit		(40,676,968)	(34,835,475)
Accumulated other comprehensive income		2,578,916	2,910,735
		59,997,286	65,474,410
Total Liabilities & Shareholders' Equity		67,095,646	83,753,219

Nature of operations (Note 1)

Approved on behalf of the Board of Directors:

	Director
	Director

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

PIVOTREE INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three and nine months ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		\$	\$	\$	\$
Revenues	16	21,051,441	24,598,974	68,774,483	75,530,446
Cost of sales	14	11,315,907	13,557,811	37,121,059	42,180,819
Gross profit		9,735,534	11,041,163	31,653,424	33,349,627
EXPENSES					
General and administration	15	3,090,622	4,093,095	9,321,706	11,620,762
Research and development	15	475,247	1,220,113	1,875,186	3,467,496
Information technology and operations	15	3,520,241	3,897,298	11,134,699	11,760,607
Sales and marketing	15	2,227,695	2,588,978	7,641,292	7,407,178
Amortization and depreciation		1,592,223	2,275,105	4,814,244	7,254,902
Stock based compensation	13	210,008	245,374	679,063	798,832
Interest	15	80,729	72,910	263,541	232,353
Loss (gain) on foreign exchange		(170,186)	(312,747)	181,461	(531,386)
Restructure and other	15	424,663	1,144,505	1,340,093	1,329,636
Total expenses		11,451,242	15,224,631	37,251,285	43,340,380
Operating loss before interest income and taxes		(1,715,708)	(4,183,468)	(5,597,861)	(9,990,753)
Interest income		77,385	20,161	153,270	64,694
Loss before income taxes		(1,638,323)	(4,163,307)	(5,444,591)	(9,926,059)
Income tax expense (recovery) - current		199,809	(138,107)	396,902	1,599,399
Deferred taxes		-	(452,886)	-	(976,477)
Net loss for the period		(1,838,132)	(3,572,314)	(5,841,493)	(10,548,981)
Other comprehensive income (loss):					
Items that may be reclassified subsequently to income:					
Foreign currency translation adjustment		497,362	1,052,239	(331,819)	610,548
Comprehensive loss for the period		(1,340,770)	(2,520,075)	(6,173,312)	(9,938,433)
Loss per share - basic and diluted		(0.07)	(0.13)	(0.22)	(0.41)
Weighted Average Number of Common Shares Outstanding					
		26,582,333	26,627,008	26,616,338	26,038,970

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

PIVOTREE INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

(Unaudited)

	Number of common shares	Capital Stock \$	Obligation to issue shares \$	Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income \$	Total \$
Balance, December 31, 2021	25,278,853	90,393,390	-	2,905,890	(25,748,954)	328,373	67,878,699
Options exercised	778,750	1,424,711	-	(533,042)	-	-	891,669
Equity issuance on earnout	572,466	2,539,463	-	-	-	-	2,539,463
Share based compensation	-	-	-	798,832	-	-	798,832
Share repurchase	(16,100)	(58,968)	-	4,634	-	-	(54,334)
Foreign exchange translation	-	-	-	-	-	610,548	610,548
Net loss for the period	-	-	-	-	(10,548,981)	-	(10,548,981)
Balance, September 30, 2022	26,613,969	94,298,596	-	3,176,314	(36,297,935)	938,921	62,115,896
Balance, December 31, 2022	26,616,416	94,262,592	-	3,136,558	(34,835,475)	2,910,735	65,474,410
Options exercised	153,204	216,472	-	(158,722)	-	-	57,750
RSUs converted	78,406	350,013	-	(350,013)	-	-	-
DSUs converted	13,430	77,093	-	(77,093)	-	-	-
Commitment to issue 338,999 common shares	-	-	835,212	-	-	-	835,212
Share based compensation	-	-	-	679,063	-	-	679,063
Share repurchase	(371,700)	(1,361,729)	-	485,892	-	-	(875,837)
Foreign exchange translation	-	-	-	-	-	(331,819)	(331,819)
Net loss for the period	-	-	-	-	(5,841,493)	-	(5,841,493)
Balance, September 30, 2023	26,489,756	93,544,441	835,212	3,715,685	(40,676,968)	2,578,916	59,997,286

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

PIVOTREE INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(Unaudited)

	Nine months ended	
	September 30, 2023	September 30, 2022
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(5,841,493)	(10,548,981)
Items not affecting cash:		
Amortization and depreciation	4,814,244	7,254,902
Share-based compensation	679,063	798,832
Revaluation of earnout	74,301	(545,871)
Deferred income tax	-	(1,018,150)
Change in fair value of derivative	75,200	-
Changes in non-cash working capital balances:		
Accounts receivable	5,377,355	(3,988,917)
Prepaid expenses and other current assets	220,194	516,313
Accounts payable and accrued liabilities	(7,601,509)	133,763
Income taxes payable (receivable)	80,703	801,365
Deferred revenue	(1,546,691)	750,661
Cash flows used in operating activities	(3,668,633)	(5,846,083)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of term deposits	(1,347,800)	-
Purchase of property and equipment	(730,366)	(529,022)
Additions of intangible property	(290,601)	(117,232)
Earnout payments	(762,659)	(4,010,789)
Cash flows used in investing activities	(3,131,426)	(4,657,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease repayment	(758,754)	(1,060,041)
Purchase of treasury stock	(875,837)	(54,334)
Proceeds from share issuance, net of share issue costs	57,750	891,669
Cash flows used in financing activities	(1,576,841)	(222,706)
Net decrease in cash	(8,376,900)	(10,725,832)
Cash, beginning of period	17,346,028	24,570,287
Cash, end of period	8,969,128	13,844,455

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

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS

Pivotree Inc. was incorporated under the Business Corporations Act in Ontario, Canada on August 13, 1998 and provincially registered in Ontario, Canada on June 22, 2015; Pivotree and its subsidiaries (together “the Company”), principal place of business is its headquarters at 6300 Northam Drive, Mississauga, Ontario, Canada L4V 1H7. The Company designs, integrates, deploys, and manages digital platforms in Commerce, Data Management and Supply Chain for major retail and branded manufacturers throughout the world. Pivotree provides the technical skills necessary to enable the effective use of technologies combined with the business context to leverage a solution to solve clients' business challenges. Pivotree’s portfolio of products, managed and professional services help provide B2B2C digital businesses with end-to-end service to manage complex digital commerce platforms, along with ongoing support from strategic planning through product selection, deployment, and hosting, to data and supply chain management.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These unaudited interim condensed consolidated financial statements (“financial statements”) were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2022. These interim condensed consolidated financial statements have been prepared in compliance with IAS 34 — Interim Financial Reporting. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the Corporation’s consolidated financial statements for the year ended December 31, 2022. These financial statements were approved and authorized for issuance by the Board of Directors of the Corporation on November 8, 2023.

(b) Basis of consolidation

The consolidated financial statements include the accounts of Pivotree Inc. and its wholly owned subsidiaries Pivotree US Holdings Corp., Pivotree USA Inc., Thinkwrap Solutions Inc., and Pivotree Solutions India PVT Ltd.. Subsidiaries are entities that the Company has control of and are fully consolidated from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

(d) Use of estimates and judgments

In preparing these unaudited condensed consolidated interim financial statements, Management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. 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 estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2022.

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(Unaudited)

3. ACCOUNTS RECEIVABLE

The Company's accounts receivable is comprised of the following:

	September 30, 2023	December 31, 2022
	\$	\$
Trade receivables	11,522,879	16,981,924
Other receivables	882,262	840,613
Less: expected credit loss provision	(22,756)	(62,797)
Net accounts receivable	12,382,385	17,759,740

A continuity of the Company's expected credit loss provision is as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Opening balance	62,797	29,627
Additions	37,967	33,170
Less: write-offs	(78,008)	-
Ending balance	22,756	62,797

4. PREPAID EXPENSES

	September 30, 2023	December 31, 2022
	\$	\$
Software subscriptions	1,421,251	1,428,766
Insurance	173,751	524,788
Rent deposits	171,373	209,374
Professional fees	95,810	-
Derivative	25,100	100,300
Other	364,212	283,663
Ending balance	2,251,497	2,546,891

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Expressed in Canadian dollars)

(Unaudited)

5. PROPERTY AND EQUIPMENT

	Computer Hardware and Software*	Furniture and Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
COST				
Balance, December 31, 2021	22,654,195	1,234,662	434,529	24,323,386
Additions	705,657	-	-	705,657
Balance, December 31, 2022	23,359,852	1,234,662	434,529	25,029,043
Additions	730,366	-	-	730,366
Balance, September 30, 2023	<u>24,090,218</u>	<u>1,234,662</u>	<u>434,529</u>	<u>25,759,409</u>
ACCUMULATED DEPRECIATION				
Balance, December 31, 2021	19,399,655	926,340	318,924	20,644,919
Additions	876,000	61,422	21,115	958,537
Effect of foreign currency translation	(6,756)	-	-	(6,756)
Balance, December 31, 2022	20,268,899	987,762	340,039	21,596,700
Additions	669,609	50,371	19,006	738,986
Effect of foreign currency translation	2,049	-	-	2,049
Balance, September 30, 2023	<u>20,940,557</u>	<u>1,038,133</u>	<u>359,045</u>	<u>22,337,735</u>
Net book value December 31, 2022	<u>3,090,953</u>	<u>246,900</u>	<u>94,490</u>	<u>3,432,343</u>
Net book value September 30, 2023	<u>3,149,661</u>	<u>196,529</u>	<u>75,484</u>	<u>3,421,674</u>

*Included in computer hardware and software is equipment under lease and accounted for as a Right-of-use-Asset pursuant to the Company's adoption of IFRS 16 (see Note 6).

6. RIGHT-OF-USE ASSETS

The Company leases certain office premises. The leases typically run for a period of 3 to 4 years with an option to renew the lease after that date. Lease payments are renegotiated within one year of expiry to reflect market rentals.

Information about leases for which the Company is a lessee is presented below:

	Premises Leases \$	Computer Equipment \$	Total \$
Balance, December 31, 2021	1,391,550	138,633	1,530,183
Additions	761,554	-	761,554
Depreciation charge for the year	(861,768)	(35,939)	(897,707)
Effects of foreign exchange	(38,885)	-	(38,885)
Balance, December 31, 2022	<u>1,252,451</u>	<u>102,694</u>	<u>1,355,145</u>
Additions	250,555	-	250,555
Depreciation charge for the year	(540,609)	(22,793)	(563,402)
Effects of foreign exchange	(617)	-	(617)
Balance, September 30, 2023	<u>961,780</u>	<u>79,901</u>	<u>1,041,681</u>

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Expressed in Canadian dollars)

(Unaudited)

7. INTANGIBLE ASSETS

	Software Technologies \$	Brand & Trademark \$	Non- Compete \$	License \$	Customer List \$	Total \$
COST						
Balance, December 31, 2021	5,683,836	86,093	368,533	1,798,738	21,174,430	29,111,630
Additions	136,363	-	-	-	-	136,363
Foreign exchange movement	-	-	22,947	65,534	975,839	1,064,320
Balance, December 31, 2022	5,820,199	86,093	391,480	1,864,272	22,150,269	30,312,313
Additions	290,601	-	-	-	-	290,601
Balance, September 30, 2023	6,110,800	86,093	391,480	1,864,272	22,150,269	30,602,914
ACCUMULATED AMORTIZATION						
Balance, December 31, 2021	4,468,723	18,285	20,367	345,682	6,284,054	11,137,111
Amortization	865,043	-	119,364	145,932	5,670,593	6,800,932
Foreign exchange movement	(14,134)	-	12,511	14,356	685,538	698,271
Balance, December 31, 2022	5,319,632	18,285	152,242	505,970	12,640,185	18,636,314
Amortization	346,789	50,856	89,526	258,699	1,883,336	3,570,846
Foreign exchange movement	(26,964)	-	8,801	22,643	213,327	217,807
Balance, September 30, 2023	5,639,457	69,141	250,569	787,312	15,678,488	22,424,967
Net book value December 31, 2022	500,567	67,808	239,238	1,358,302	9,510,084	11,675,999
Net book value September 30, 2023	471,343	16,952	140,911	1,076,960	6,471,781	8,177,947

8. GOODWILL

	September 30, 2023 \$	December 31, 2022 \$
Balance, Opening	29,486,561	27,794,484
Impact of final working capital adjustments	-	(785,483)
Foreign exchange movement	(75,629)	2,477,560
Balance, Closing	29,410,932	29,486,561

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are comprised of the following:

	September 30, 2023 \$	December 31, 2022 \$
Accounts payable	2,061,663	4,694,552
Payroll accruals	902,442	4,538,143
Accrued liabilities	958,295	2,256,046
	3,922,400	11,488,741

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(Unaudited)

10. LEASE LIABILITIES

	September 30, 2023	December 31, 2022
	\$	\$
Obligation under lease contracts for computer equipment	129,735	337,127
Obligation under lease contracts for office space	1,041,387	1,343,342
Less: current portion	(765,578)	(905,298)
	405,544	775,171

11. RELATED PARTY TRANSACTIONS

The following are details of the related party transactions entered into by the Company during the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Expenses paid to a private company related to a shareholder:				
Occupancy	12,000	-	45,061	-
	12,000	-	45,061	-

Compensation of key management personnel

The Company defines key management personnel as being the Board of Directors, the Chief Executive Officer and the executive leadership team. The remuneration of key management personnel during the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries (including benefits)	451,725	431,101	1,349,528	1,231,947
Stock based compensation	103,157	85,001	287,773	275,432
	554,882	516,102	1,637,301	1,507,379

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Expressed in Canadian dollars)

(Unaudited)

12. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited number of Series A preferred shares, an unlimited number of Series B preferred shares, an unlimited number of Series C preferred shares, and an unlimited number of Series D preferred shares. The Company's common shares are without par value, have voting rights and are entitled to receive dividends.

During the nine months ended September 30, 2023 the Company issued:

- 153,204 common shares upon the exercise of stock options
 - Cash proceeds were \$57,750 for 25,000 shares
 - 128,204 shares were issued net of cashless exercises
- 78,406 common shares upon the exercise of restricted stock units with a value of \$350,001
- 13,430 common shares upon the exercise of deferred stock units with a value of \$77,093

During the nine months ended September 30, 2023 the Company repurchased and retired 371,700 shares for \$875,837 under a normal course issuer bid (NCIB).

13. STOCK OPTIONS & RESTRICTED SHARES

(a) Stock-based Compensation

On October 30, 2020, the Company established its 2020 Omnibus Equity Incentive Compensation Plan ("2020 Plan") which provides for the granting of Options, Share Appreciation Rights ("SARS"), Restricted Share Units ("RSUs"), Deferred Share Units ("DSUs") and Performance Share Units ("PSUs") to employees, directors, officers and consultants of the Company. The maximum number of shares issuable pursuant to Options issued under the 2020 Plan will be equal to 10% of the then outstanding shares on a rolling basis. In addition to the number of Options issuable under the 2020 Plan, the Company may issue an additional 2,266,778 shares in aggregate pursuant to the exercise of all SARs, RSU, DSUs and PSUs.

(b) Options

The following table reflects the continuity of the stock options granted for the nine month period ended September 30, 2023 and the year ended December 31, 2022:

	September 30, 2023		December 31, 2022	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Outstanding, beginning of period	1,109,957	3.02	1,538,822	1.71
Granted	420,148	2.51	497,668	4.09
Exercised	(153,204)	(1.42)	(811,018)	(1.10)
Expired/Forfeited	(169,907)	(1.61)	(115,515)	(3.60)
Outstanding, end of period	1,206,994	3.24	1,109,957	3.02

Stock compensation expense related to stock options for the nine months ended September 30, 2023 and 2022 was \$123,304 (2022 - \$181,756).

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2023 and 2022
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13. STOCK OPTIONS & RESTRICTED SHARES (Continued)

(c) Restricted Shares

Since 2016 the Company has provided compensation to select advisors and management all or in part with retractable common shares (the “Restricted Shares” or ‘RSU(s)’). Restricted shares grant an individual share in exchange for the promise to provide services over a 3 year period. In the event that the individual ceases to be engaged by the Company during the Restricted Share period, some or all of the common shares are retracted corresponding to the services not delivered. The fair value of restricted shares is estimated using the market price of the Company’s common stock at the date of grant. The Company reports the portion of the common shares that have been fully earned and can no longer be retracted from shares outstanding.

During the nine months ended September 30, 2023 and 2022, the Company granted 2,273 RSUs (2022 – 245,617), and 32,601 (2022 – 39,645) were forfeited; A total of 78,406 (2022 – 15,722) RSUs vested.

As at September 30, 2023 and 2022 the Company had a total of 159,971 (2022 – 317,107) RSU’s outstanding. For the nine months ended September 30, 2023 and 2022, the Company recognized share based compensation related to RSU’s of \$300,759 (2022 - \$248,311).

(d) Deferred Shares

During the nine months ended September 30, 2023 and 2022 the Company granted 103,657 DSUs (2022 – 130,128) and 13,430 were converted to shares (2022 – nil). The DSUs were measured at their grant date fair value and vest immediately, which is equal to the fair value of the Company’s common shares. At the Company’s discretion, participants shall be entitled to receive payment from the Company in settlement of DSUs in cash, in an amount equal to the product of the FMV of a share on the applicable settlement date, multiplied by the number of DSUs being settled, in a number of shares, or in some combination of the two.

As at September 30, 2023 and 2022 the Company had a total of 281,238 (2022 – 191,011) DSU’s outstanding. Stock compensation expense related to DSUs for the nine months ended September 30, 2023 and 2022 was \$255,000 (2022 - \$275,431).

(e) Performance Shares

During the nine months ended September 30, 2023 and 2022 the Company granted nil performance share units (“PSUs”) (2022 – 20,392) and 5,637 units (2022 – 19,622) were forfeited. The PSUs vest upon the achievement of specified revenue per share and earnings before interest, taxes, depreciation and amortization (“EBITDA”) percentage targets over the period of October 1, 2023 to December 31, 2023. For the nine months ended September 30, 2023 and 2022, the Company recognized share based compensation related to PSUs of \$nil (2022 - \$93,334). The PSUs were measured at their grant date fair value, which was equal to the fair value of the Company’s common shares.

At the Company’s discretion, participants shall be entitled to receive payment from the Company in settlement of PSUs in cash, in an amount equal to the product of the FMV of a share on the applicable settlement date, multiplied by the number of PSUs being settled, in a number of shares, or in some combination of the two.

As at September 30, 2023 and 2022 the Company had a total of 48,653 (2022 – 54,290) PSU’s outstanding.

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14. COST OF SALES

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Data center costs and software usage rights	3,320,318	4,447,207	10,957,299	13,577,042
Salaries and benefits	7,939,164	8,983,242	25,917,743	28,216,735
Other direct costs	56,425	127,362	246,017	387,042
	11,315,907	13,557,811	37,121,059	42,180,819

15. EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Sales and Marketing				
Salaries and benefits	1,786,792	2,087,197	5,829,712	6,138,843
Advertising and marketing	214,594	301,317	1,071,119	763,313
Travel and other expenses	226,309	200,464	740,461	505,022
	2,227,695	2,588,978	7,641,292	7,407,178
Information Technology and Operations				
Salaries and benefits	2,701,999	3,135,464	8,768,718	9,631,710
Internet and software costs	455,937	544,721	1,449,108	1,508,510
Other expenses	362,305	217,113	916,873	620,387
	3,520,241	3,897,298	11,134,699	11,760,607
General and Administrative				
Salaries and benefits	2,285,628	3,135,251	6,773,927	8,905,440
Professional fees	205,490	342,252	750,519	1,029,517
Travel, rent and general office	599,504	615,592	1,797,260	1,685,805
	3,090,622	4,093,095	9,321,706	11,620,762
Research and Development				
Salaries and benefits	440,295	1,060,666	1,690,586	3,063,088
Software and other expenses	34,952	159,447	184,600	404,408
	475,247	1,220,113	1,875,186	3,467,496
Restructure and Other				
Acquisition	-	68,178	-	401,582
Restructure	527,580	1,226,617	1,267,312	1,443,617
Gain on revaluation on earnouts payable	(116)	-	39,801	-
Other	(102,801)	(150,290)	32,980	(515,563)
	424,663	1,144,505	1,340,093	1,329,636
Interest				
Loans, borrowings and standby fees	65,289	39,450	205,585	138,857
Interest on lease obligations - office space	12,470	25,158	45,381	58,620
Interest on lease obligations - equipment	2,970	8,302	12,575	34,876
	80,729	72,910	263,541	232,353

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The Company's Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company's internal management system at a consolidated level. The Company has determined that it has only one operating segment.

Geographic information

The following table presents external revenue on a geographic basis:

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue by location	Canada	5,390,894	7,638,927	17,610,232	19,791,349
	United States	13,764,378	15,585,825	45,432,932	49,582,637
	Other	1,896,169	1,374,222	5,731,319	6,156,460
Total		21,051,441	24,598,974	68,774,483	75,530,446

17. EARNINGS (LOSS) PER SHARE

To the extent that the Company's results of operations are a loss, potentially dilutive shares relating to preferred shares, deferred common shares, stock options, RSU's, DSU's and PSU's as set-out below have been excluded from the calculation of the diluted number of shares as the impact would be anti-dilutive.

		Nine months ended September 30,	
		2023	2022
		\$	\$
RSU's, DSU's, and PSU's		489,862	304,977
Stock options		1,206,994	895,885
		1,696,856	1,200,862

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18. CAPITAL RISK MANAGEMENT

The general objectives of the Company in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth and strategic acquisitions in order to continue operating, in providing benefits to its stakeholders and in providing an adequate return on investment to its shareholders by selling its services at a price commensurate with the level of operating risk assumed by the Company. The Company thus determines the total amount of capital required consistent with risk levels.

The Company's capital structure consists of cash and shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and deficit. The Company does not currently hold debt but may in the future. This capital structure is adjusted on a timely basis depending on changes in the economic environment and in the risks of the underlying assets.

In December 2020, the Company entered into a single revolving facility (the "BMO Facility") for up to \$25,000,000 of revolving credit, with the ability to access an additional \$1,000,000 treasury risk line of credit to be used at the direction of BMO for hedging agreements and a \$250,000 line of credit in respect of corporate MasterCard to be issued to Company employees for corporate purposes.

The BMO Facility may be drawn by way of Canadian dollar loans, US dollar loans or the issuance of letters of credit and will mature on October 31, 2023 and will carry an interest rate of 1.5% per annum and is subject to a general security agreement creating a First-Ranking Security interest in all present and future property of the Company and its subsidiaries. A condition of this Facility is that the Company must maintain, on a consolidated basis, a minimum of \$5,000,000 cash on the closing date and at the end of each subsequent fiscal quarter. As of September 30, 2023 and December 31, 2022 the Company has not drawn on the BMO Facility.

As at September 30, 2023, the Company is in the process of obtaining another facility upon the maturity of the BMO Facility.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and earnouts payable approximate their fair values due to the immediate or short-term nature of these instruments. The carrying value of the current portion of lease liabilities approximate their fair value due to their short term to maturity. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table summarizes the Company's financial instruments measured at fair value at September 30, 2023 and December 31, 2022, by categorization in the fair value hierarchy level:

	Fair value hierarchy level	September 30, 2023	December 31, 2022
Earnouts payable	Level 3	-	(1,558,070)
Derivative	Level 2	25,100	100,300

PIVOTREE INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2023 and 2022****(Expressed in Canadian dollars)****(Unaudited)****19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)***Earnouts payable*

The fair value of earnouts at September 30, 2023 and December 31, 2022 was determined using a probability weighted model based on the likelihood of achieving certain revenue and gross margin targets.

Derivative

During 2022, the Company entered into an agreement with a Canadian financial institution to sell \$10 million US\$ over the course of 2023 at an exchange rate of 1.3601. During 2023, additional amounts to sell in 2024 of \$1.5 million US\$ at an exchange rate of 1.35 and another \$1.5 million US\$ at an exchange rate of 1.36 were entered into. At September 30, 2023 the unrealized increase in the value of this derivative instrument is \$25,100. The fair value of the forward contract was determined using mark-to-market information as at September 30, 2023 from a third party. The balance of the value of the derivative has been included in prepaid expenses and other current assets in the statement of financial position.

The Company has exposure to the following risks from its use of financial instruments:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is placed with a major US and Canadian financial institutions and the Company's concentration of credit risk for cash and maximum exposure thereto is \$8,969,128 (December 31, 2022 — \$17,346,028).

With respect to its accounts receivable, the Company assesses the credit rating of all customers and maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. The Company's credit risk with respect to trade and other accounts receivable and maximum exposure thereto is \$12,103,189 (December 31, 2022 — \$17,822,537). Included in accounts receivable is \$22,756 (December 31, 2022 — \$62,797) as a provision for credit losses.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. At September 30, 2023 and December 31, 2022, the Company has liabilities with the following due dates:

	September 30,				
	2023				
	Under 3 months	3 months – 1 year	1 – 2 years	3 – 5 years	Total
	\$	\$	\$	\$	\$
A/P and accrued liabilities	3,922,400	-	-	-	3,922,400
Earnout on acquisitions	-	-	-	-	-
Leases payable	234,522	533,370	490,915	-	1,258,807
	4,156,922	533,370	490,915	-	5,181,207
	December 31, 2022				
	Under 3 months	3 months – 1 year	1 – 2 years	3 – 5 years	Total
	\$	\$	\$	\$	\$
A/P and accrued liabilities	11,488,741	-	-	-	11,488,741
Earnout on acquisitions	-	1,558,070	-	-	1,558,070
Leases payable	202,448	742,815	874,732	18,417	1,838,412
	11,691,189	2,300,885	874,732	18,417	14,885,223

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company manages its liquidity risk by relying upon its revenues and available funds from existing credit facilities.

Market Risks

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to this risk through its long-term debt when incurred. As of September 30, 2023 and December 31, 2022 the Company has no long-term debt.

Foreign Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchase and sale transactions and has assets and liabilities denominated in foreign currencies resulting in exposure to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company uses derivative instruments to reduce its exposure to foreign currency risk. The Company's financial instruments denominated in foreign currencies and the exchange rate (Canadian dollars per unit of foreign currency) used at the balance sheet date are as follows:

Instrument	Currency	September 30, 2023	December 31, 2022
Cash	U.S. dollar	\$ 5,986,922	\$ 11,334,327
Cash	Euro	€ 44,425	€ 78,474
Cash	Indian Rupee	₹ 4,759,556	₹ 19,866,506
Term deposit	U.S. dollar	\$ 1,000,000	\$ -
Accounts receivable	U.S. dollar	\$ 7,436,392	\$ 11,333,533
Accounts receivable	Euro	€ 122,658	€ 39,684
Accounts receivable	Singapore Dollar	\$ 42,777	\$ 75,355
Accounts payable	U.S. dollar	\$ 1,254,376	\$ 2,698,282
Accounts payable	Euro	€ 10,699	€ 9,271
Accounts payable	Indian Rupee	₹ 2,875,013	₹ 3,207,114

The month-end exchange rate to the Canadian dollar, by currency, is as follows:

Currency	September 30, 2023	December 31, 2022
U.S. dollar	\$ 1.3502	\$ 1.3546
Euro	€ 1.4291	€ 1.4471
Great British Pound	£ 1.6503	£ 1.7238
Indian Rupee	₹ 0.0163	₹ 0.0164

At September 30, 2023 and December 31, 2022, the Company had net assets of \$17,780,700 denominated in USD \$13,168,938 [2022 – net assets of \$27,050,791 in USD \$19,969,578]. A 10% variation in USD, and if all other variables remain constant, would have an impact on comprehensive income of \$1,778,070 during the nine month period ended September 30, 2023 [December 31, 2022 – \$2,705,079]. Operating activities denominated in Euro and Indian Rupee have a minimal impact on the Company.

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20. BUSINESS COMBINATIONS

(a) Bridge Solutions Group

On September 1, 2021, the Company purchased 100% of the outstanding shares of Bridge Solutions Group Corp. and Bridge SGI Solutions India Private Limited (together “Bridge”) Bridge Solutions is a supply chain service provider and Pivotree partner specializing in order management systems, warehouse management systems and application integration. The acquisition enhances Pivotree’s ability to deliver end-to-end frictionless experiences for customers by providing a single entity to manage commerce systems.

Details of the purchase consideration are as follows:

Purchase consideration:

Cash consideration	6,913,598
Shares	797,651
Contingent consideration payable	4,766,764
Total consideration	<u><u>12,478,013</u></u>

Contingent consideration

The determination of the fair value of the contingent consideration payable is primarily based on the Company’s expectations of the amount of gross margin to be achieved by the business unit within a specified time period based on the purchase agreement.

The balance of contingent consideration is as follows:

Carrying value of contingent consideration, December 31, 2022	1,558,070
Revaluation of contingent consideration	74,301
Effects of movements in foreign exchange	(34,500)
Settlement of consideration*	<u>(1,597,871)</u>
Carrying value of contingent consideration, September 30, 2023	<u><u>-</u></u>

*In September 2023, the balance of consideration was settled through the payment of \$762,659 of cash and 338,999 shares to be issued at a value of \$835,212.