



PIVOTREE INC.
Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2024 and 2023
(Expressed in Canadian dollars unless otherwise stated)
(Unaudited)

Index	Page
Notice of no auditor review	2
Interim Condensed Consolidated Statements of Financial Position (Unaudited)	3
Interim Condensed Consolidated Statements of Comprehensive Loss (Unaudited)	4
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)	5
Interim Condensed Consolidated Statements of Cash Flows (Unaudited)	6
Notes to the Interim Condensed Consolidated Statements (Unaudited)	7 – 18

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, 2024 and December 31, 2023
(Expressed in Canadian dollars)
(Unaudited)

	Notes	September 30, 2024 \$	December 31, 2023 \$
ASSETS			
Current assets			
Cash		5,308,142	7,290,149
Restricted cash	3	168,963	1,329,012
Term deposits		-	1,347,800
Accounts receivable	4	12,713,804	11,600,117
Prepaid expenses and other current assets	5	1,517,064	2,223,202
		19,707,973	23,790,280
Property and equipment	6	1,573,884	3,505,172
Right-of-use assets	7	517,164	779,677
Deferred income tax asset		57,316	57,316
Intangible assets	8	4,706,393	6,971,445
Goodwill	9	29,436,641	28,990,019
Total Assets		55,999,371	64,093,909
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	6,946,760	3,927,822
Income taxes payable		198,679	59,433
Deferred revenue		1,763,917	1,665,555
Current portion of lease liabilities	11	483,153	737,316
		9,392,509	6,390,126
Non-current liabilities			
Lease liabilities	11	80,598	213,053
Total liabilities		9,473,107	6,603,179
Shareholders' Equity			
Share capital	13	92,736,899	92,959,538
Contributed surplus		5,289,402	4,590,453
Deficit		(53,739,520)	(42,065,533)
Accumulated other comprehensive income		2,239,483	2,006,272
		46,526,264	57,490,730
Total Liabilities & Shareholders' Equity		55,999,371	64,093,909

Nature of operations (Note 1)

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, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
		\$	\$	\$	\$
Revenues	17	18,817,089	21,051,441	60,008,755	68,774,483
Cost of sales	15	11,542,539	11,315,907	34,221,224	37,121,059
Gross profit		7,274,550	9,735,534	25,787,531	31,653,424
EXPENSES					
General and administration	16	2,648,359	3,090,622	8,333,204	9,321,706
Research and development	16	522,648	475,247	1,408,966	1,875,186
Information technology and operations	16	2,715,474	3,520,241	9,147,994	11,134,699
Sales and marketing	16	2,104,542	2,227,695	7,418,941	7,641,292
Amortization and depreciation		1,543,901	1,592,223	5,728,793	4,814,244
Stock based compensation	14	238,148	210,008	712,199	679,063
Interest	16	41,052	80,729	119,956	263,541
Loss (gain) on foreign exchange		120,063	(170,186)	(190,790)	181,461
Restructure and other	16	2,299,829	424,663	4,372,792	1,340,093
Total expenses		12,234,016	11,451,242	37,052,055	37,251,285
Operating loss before interest income and taxes		(4,959,466)	(1,715,708)	(11,264,524)	(5,597,861)
Interest income		21,541	77,385	137,005	153,270
Loss before income taxes		(4,937,925)	(1,638,323)	(11,127,519)	(5,444,591)
Income tax expense - current		147,006	199,809	546,468	396,902
Net loss for the period		(5,084,931)	(1,838,132)	(11,673,987)	(5,841,493)
Other comprehensive income (loss):					
Items that may be reclassified subsequently to income:					
Foreign currency translation adjustment		(369,671)	497,362	233,211	(331,819)
Comprehensive loss for the period		(5,454,602)	(1,340,770)	(11,440,776)	(6,173,312)
Loss per share - basic and diluted		(0.19)	(0.07)	(0.44)	(0.22)
Weighted Average Number of Common Shares					
Outstanding		26,365,127	26,582,333	26,346,573	26,616,338

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, 2024 and 2023

(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, 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
Balance, December 31, 2023	26,440,745	92,959,538	-	4,590,453	(42,065,533)	2,006,272	57,490,730
RSUs converted	66,900	300,656	-	(300,656)	-	-	-
Share based compensation	-	-	-	712,199	-	-	712,199
Share repurchase	(141,700)	(523,295)	-	287,406	-	-	(235,889)
Foreign exchange translation	-	-	-	-	-	233,211	233,211
Net loss for the period	-	-	-	-	(11,673,987)	-	(11,673,987)
Balance, September 30, 2024	26,365,945	92,736,899	-	5,289,402	(53,739,520)	2,239,483	46,526,264

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

PIVOTREE INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended September 30, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(5,084,931)	(1,838,132)	(11,673,987)	(5,841,493)
Items not affecting cash:				
Amortization and depreciation	1,543,901	1,592,223	5,728,793	4,814,244
Share-based compensation	238,148	210,008	712,199	679,063
Foreign exchange (gain)/loss - without derivative impact	187,863	(192,586)	(295,590)	106,261
Change in fair value of derivative	(67,800)	22,400	104,800	75,200
Revaluation of earnout	-	34,384	-	74,301
Changes in non-cash working capital balances:				
Accounts receivable	809,059	2,409,285	(1,017,568)	5,192,784
Prepaid expenses and other current assets	955,384	334,222	538,603	212,525
Accounts payable and accrued liabilities	1,638,640	(696,418)	3,040,875	(7,541,698)
Income taxes payable (receivable)	-	(2,715)	137,576	84,333
Deferred revenue	(487,423)	(644,248)	94,714	(1,543,655)
Cash flows provided by (used in) operating activities	(267,159)	1,228,423	(2,629,585)	(3,688,135)
CASH FLOWS FROM INVESTING ACTIVITIES				
(Purchase) maturity of term deposits	-	(1,347,800)	1,347,800	(1,347,800)
Purchase of property and equipment	(31,098)	(287,883)	(183,863)	(730,366)
Additions of intangible property	(341,210)	(143,435)	(976,390)	(290,601)
Earnout payments	-	(762,659)	-	(762,659)
Cash flows provided by (used in) investing activities	(372,308)	(2,541,777)	187,547	(3,131,426)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital lease repayment	(105,956)	(232,578)	(481,532)	(758,754)
Share repurchase	-	(710,978)	(235,889)	(875,837)
Exercise of options	-	-	-	57,750
Cash flows used in financing activities	(105,956)	(943,556)	(717,421)	(1,576,841)
Effect of foreign currency on cash	(13,557)	136,224	17,403	19,502
Net decrease in cash	(758,980)	(2,120,686)	(3,142,056)	(8,376,900)
Cash, beginning of period	6,236,085	11,089,814	8,619,161	17,346,028
Cash, end of period	5,477,105	8,969,128	5,477,105	8,969,128
Comprised of:				
Cash and cash equivalents	5,308,142	8,969,128	5,308,142	8,969,128
Restricted cash	168,963	-	168,963	-

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

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(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. MATERIAL 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, 2023. 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, 2023. These financial statements were approved and authorized for issuance by the Board of Directors of the Corporation on November 12, 2024.

(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., Pivotree Solutions India PVT Ltd. and Pivotree Spain S.L. 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

Each of the Company’s subsidiaries’ financial statements are measured using the currency of the primary economic environment in which the entity operates. 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, 2023.

PIVOTREE INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Three and nine months ended September 30, 2024 and 2023****(Expressed in Canadian dollars)****(Unaudited)****3. RESTRICTED CASH**

Restricted cash of \$168,963 (2023 - \$1,329,012) consists of collateral held in cash accounts at a financial institution as a requirement for the Company's foreign currency forward contracts and credit relationships.

4. ACCOUNTS RECEIVABLE

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

	September 30, 2024	December 31, 2023
	\$	\$
Trade receivables	11,157,502	10,492,813
Other receivables	1,556,302	1,198,363
Less: expected credit loss provision	-	(91,059)
Net accounts receivable	12,713,804	11,600,117

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

	September 30, 2024	December 31, 2023
	\$	\$
Opening balance	91,059	62,797
Additions	12,648	106,269
Less: write-offs	(103,707)	(78,007)
Ending balance	-	91,059

For the nine months ended September 30, 2024, the Company recorded bad debt expense of \$12,648 (2023 — \$106,269).

5. PREPAID EXPENSES

	September 30, 2024	December 31, 2023
	\$	\$
Software subscriptions	846,559	1,124,275
Insurance	133,163	388,179
Rent deposits	-	169,013
Derivative	63,600	168,400
Other	473,742	373,335
Ending balance	1,517,064	2,223,202

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

6. PROPERTY AND EQUIPMENT

	Computer Hardware and Software*	Furniture and Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
COST				
Balance, December 31, 2022	23,359,852	1,234,662	434,529	25,029,043
Additions	1,103,900	-	-	1,103,900
Balance, December 31, 2023	24,463,752	1,234,662	434,529	26,132,943
Additions	183,863	-	-	183,863
Write-off of fully depreciated assets	(11,335,033)	(614,024)	(434,529)	(12,383,586)
Effect of foreign currency translation	7,131	-	-	7,131
Balance, September 30, 2024	<u>13,319,713</u>	<u>620,638</u>	<u>-</u>	<u>13,940,351</u>
ACCUMULATED DEPRECIATION				
Balance, December 31, 2022	20,268,899	987,762	340,039	21,596,700
Depreciation	901,194	78,570	39,656	1,019,420
Effect of foreign currency translation	11,651	-	-	11,651
Balance, December 31, 2023	21,181,744	1,066,332	379,695	22,627,771
Depreciation	1,933,566	132,552	54,834	2,120,952
Write-off of fully depreciated assets	(11,335,033)	(614,024)	(434,529)	(12,383,586)
Effect of foreign currency translation	1,330	-	-	1,330
Balance, September 30, 2024	<u>11,781,607</u>	<u>584,860</u>	<u>-</u>	<u>12,366,467</u>
Net book value December 31, 2023	<u>3,282,008</u>	<u>168,330</u>	<u>54,834</u>	<u>3,505,172</u>
Net book value September 30, 2024	<u>1,538,106</u>	<u>35,778</u>	<u>-</u>	<u>1,573,884</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 7).

7. RIGHT-OF-USE ASSETS

The Company leases certain office premises. The leases typically run for a period of 1 to 2 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, 2022	1,252,451	102,693	1,355,144
Additions	250,555	-	250,555
Depreciation charge for the period	(716,396)	(29,205)	(745,601)
Effects of foreign exchange	(6,933)	-	(6,933)
Balance, December 31, 2023	<u>779,677</u>	<u>73,488</u>	<u>853,165</u>
Additions	639,242	-	639,242
Disposals	(515,704)	-	(515,704)
Depreciation charge for the period	(391,658)	(27,118)	(418,776)
Effects of foreign exchange	5,607	-	5,607
Balance, September 30, 2024	<u>517,164</u>	<u>46,370</u>	<u>563,534</u>

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

8. INTANGIBLE ASSETS

	Software Technologies \$	Brand & Trademark \$	Non- Compete \$	License \$	Customer List \$	Total \$
COST						
Balance, December 31, 2022	5,820,199	86,093	391,480	1,864,272	22,150,269	30,312,313
Additions	418,320	-	-	-	-	418,320
Foreign exchange movement	-	-	(8,352)	(33,437)	(379,764)	(421,553)
Balance, December 31, 2023	6,238,519	86,093	383,128	1,830,835	21,770,505	30,309,080
Additions	976,390	-	-	-	-	976,390
Write-off of fully depreciated assets	(5,311,266)	(86,093)	-	(297,000)	(7,519,888)	(13,214,247)
Foreign exchange movement	9,672	-	7,513	30,082	379,655	426,922
Balance, September 30, 2024	1,913,315	-	390,641	1,563,917	14,630,272	18,498,145
ACCUMULATED AMORTIZATION						
Balance, December 31, 2022	5,319,632	18,285	152,242	505,970	12,640,185	18,636,314
Amortization	376,966	67,808	119,368	344,932	3,766,618	4,675,692
Foreign exchange movement	14,014	-	5,092	13,151	(6,628)	25,629
Balance, December 31, 2023	5,710,612	86,093	276,702	864,053	16,400,175	23,337,635
Amortization	208,910	-	89,526	258,699	2,659,048	3,216,183
Write-off of fully depreciated assets	(5,311,266)	(86,093)	-	(297,000)	(7,519,888)	(13,214,247)
Foreign exchange movement	14,930	-	13,558	29,658	394,035	452,181
Balance, September 30, 2024	623,186	-	379,786	855,410	11,933,370	13,791,752
Net book value December 31, 2023	527,907	-	106,426	966,782	5,370,330	6,971,445
Net book value September 30, 2024	1,290,129	-	10,855	708,507	2,696,902	4,706,393

9. GOODWILL

	September 30, 2024 \$	December 31, 2023 \$
Balance, Opening	28,990,019	29,486,561
Foreign exchange movement	446,622	(496,542)
Balance, Closing	29,436,641	28,990,019

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2024 \$	December 31, 2023 \$
Accounts payable	2,769,384	1,673,087
Payroll accruals	3,125,852	638,998
Accrued liabilities	1,051,524	1,615,737
	6,946,760	3,927,822

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine months ended September 30, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

11. LEASE LIABILITIES

	September 30, 2024	December 31, 2023
	\$	\$
Obligation under lease contracts for computer equipment	29,832	95,424
Obligation under lease contracts for office space	533,919	854,945
Less: current portion	(483,153)	(737,316)
	80,598	213,053

12. 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, 2024 and 2023:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Expenses paid to a private company related to a shareholder:				
Occupancy	12,796	12,000	38,470	45,061
	12,796	12,000	38,470	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, 2024 and 2023 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Salaries (including benefits)	548,307	451,725	1,535,633	1,349,528
Stock based compensation	157,383	124,936	461,002	354,398
	705,690	576,661	1,996,635	1,703,926

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

13. 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, 2024 the Company issued:

66,900 common shares were issued upon the conversion of restricted stock units with a previously recorded charge of \$300,656.

During the nine months ended September 30, 2024 the Company repurchased and retired 141,700 shares for \$235,889 under a normal course issuer bid (NCIB).

14. 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 2,362,527 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, 2024 and the year ended December 31, 2023:

	September 30, 2024		December 31, 2023	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Outstanding, beginning of period	980,179	3.06	1,109,957	2.98
Granted	503,931	1.24	420,148	2.51
Exercised	-	-	(153,204)	(1.42)
Expired/Forfeited	(115,573)	(3.21)	(396,722)	(2.90)
Outstanding, end of period	1,368,537	2.38	980,179	3.06

Stock compensation expense related to stock options for the nine months ended September 30, 2024 and 2023 was \$159,079 (2023 - \$123,304).

(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 shares in exchange for the promise to provide services over a 1-2 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.

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

14. STOCK OPTIONS & RESTRICTED SHARES (Continued)

During the nine months ended September 30, 2024 and 2023, the Company granted 117,451 RSUs (2023 – 2,273), and 47,315 (2023 – 32,601) were forfeited. A total of 66,900 (2023 – 78,406) RSUs vested.

As at September 30, 2024 and 2023 the Company had a total of 290,956 (2023 – 159,971) RSU's outstanding. For the nine months ended September 30, 2024 and 2023, the Company recognized share based compensation related to RSU's of \$280,927 (2023 - \$300,759).

(d) Deferred Shares

The deferred share units ("DSUs") are 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.

During the nine months ended September 30, 2024 and 2023, the Company granted 244,863 DSUs (2023 – 103,657) and nil (2023 – 13,430) were converted to shares.

As at September 30, 2024 and 2023 the Company had a total of 545,650 (2023 – 281,238) DSU's outstanding. Stock compensation expense related to DSUs for the nine months ended September 30, 2024 and 2023 was \$272,193 (2023 - \$255,000).

(e) Performance Shares

During the nine months ended September 30, 2024 and 2023, 48,653 performance share units ("PSUs") (2023 – 5,637) were forfeited. The PSUs were to 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. The PSUs were measured at their grant date fair value, which was equal to the fair value of the Company's common shares.

As at September 30, 2024 and 2023 the Company had a total of nil (2023 – 48,653) PSU's outstanding.

15. COST OF SALES

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Data center costs and software usage rights	2,459,852	3,320,318	8,572,739	10,957,299
Salaries and benefits	8,995,276	7,939,164	25,371,141	25,917,743
Other direct costs	87,411	56,425	277,344	246,017
	11,542,539	11,315,907	34,221,224	37,121,059

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

16. EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
General and Administrative				
Salaries and benefits	2,031,737	2,285,628	6,229,174	6,773,927
Professional fees	160,117	205,490	534,397	750,519
Travel, rent and general office	456,505	599,504	1,569,633	1,797,260
	2,648,359	3,090,622	8,333,204	9,321,706
Research and Development				
Salaries and benefits	474,494	440,295	1,197,548	1,690,586
Software and other expenses	48,154	34,952	211,418	184,600
	522,648	475,247	1,408,966	1,875,186
Information Technology and Operations				
Salaries and benefits	1,858,653	2,701,999	6,497,753	8,768,718
Internet and software costs	596,326	455,937	1,724,577	1,449,108
Other expenses	260,495	362,305	925,664	916,873
	2,715,474	3,520,241	9,147,994	11,134,699
Sales and Marketing				
Salaries and benefits	1,613,551	1,786,792	5,654,822	5,829,712
Advertising and marketing	329,565	214,594	1,192,422	1,071,119
Travel and other expenses	161,426	226,309	571,697	740,461
	2,104,542	2,227,695	7,418,941	7,641,292
Interest				
Loans, borrowings and standby fees	27,376	65,289	82,835	205,585
Interest on lease obligations - office space	13,276	12,470	34,541	45,381
Interest on lease obligations - equipment	400	2,970	2,579	12,575
	41,052	80,729	119,956	263,541
Restructure and Other				
Restructure	1,974,055	527,580	3,699,487	1,267,312
Other	325,774	(102,917)	673,305	72,781
	2,299,829	424,663	4,372,792	1,340,093

PIVOTREE INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Three and nine months ended September 30, 2024 and 2023****(Expressed in Canadian dollars)****(Unaudited)****17. SEGMENTED INFORMATION**

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 September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
		\$	\$	\$	\$
Revenue by location	Canada	4,360,248	5,390,894	13,809,468	17,610,232
	United States	12,786,295	13,764,378	40,667,132	45,432,932
	Other	1,670,546	1,896,169	5,532,155	5,731,319
Total		18,817,089	21,051,441	60,008,755	68,774,483

The following table present revenue on a disaggregated basis:

		Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
		\$	\$	\$	\$
Revenue	Managed & IP Solutions (MIPS) & Legacy Managed Services (LMS)	8,687,789	11,193,395	27,281,774	32,865,331
	Professional services	10,129,300	9,858,046	32,726,981	35,909,152
Total		18,817,089	21,051,441	60,008,755	68,774,483

18. 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,	
	2024	2023
RSU's, DSU's and PSU's	836,606	483,630
Stock options	1,368,537	996,052
	2,205,143	1,479,682

PIVOTREE INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian dollars)

(Unaudited)

19. 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 March 2024, the Company entered into a new senior secured credit facility with the National Bank of Canada. The facility provides a \$12,000,000 senior secured credit facility with a feature that provides for up to an additional \$15,000,000 of borrowing.

20. 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 and accounts payable and accrued liabilities 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, 2024 and December 31, 2023, by categorization in the fair value hierarchy level:

	Fair value hierarchy level	September 30, 2024	December 31, 2023
Derivative	Level 2	63,600	168,400

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine months ended September 30, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 \$3 million US\$ at an exchange rate of 1.35 and another \$3.0 million US\$ at an exchange rate of 1.36 were entered into. At September 30, 2024 the gross amount of forward contracts outstanding was \$1.5 million US\$ and the unrealized increase in the value of this derivative instrument is \$63,600. The fair value of the forward contract was determined using mark-to-market information as at September 30, 2024 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 \$5,477,105 (December 31, 2023 — \$9,966,961).

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 \$12,908,337 (December 31, 2023 — \$11,691,176). Included in accounts receivable is nil (December 31, 2023 — \$91,059) 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, 2024 and December 31, 2023, the Company has liabilities with the following due dates:

	September 30, 2024				
	Under 3 months	3 months – 1 year	1 – 2 years	3 – 5 years	Total
	\$	\$	\$	\$	\$
A/P and accrued liabilities	6,946,760	-	-	-	6,946,760
Leases payable	128,991	354,162	80,598	-	563,751
	7,075,751	354,162	80,598	-	7,510,511

	December 31, 2023				
	Under 3 months	3 months – 1 year	1 – 2 years	3 – 5 years	Total
	\$	\$	\$	\$	\$
A/P and accrued liabilities	3,927,822	-	-	-	3,927,822
Leases payable	213,264	444,815	366,524	-	1,024,603
	4,141,086	444,815	366,524	-	4,952,425

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

PIVOTREE INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine months ended September 30, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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, 2024 and December 31, 2023 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.

At September 30, 2024 and December 31, 2023, the Company had net assets of \$11,924,427 denominated in USD \$8,821,800 (2023 – net assets of \$16,446,479 in USD \$12,405,883). A 10% variation in USD, and if all other variables remain constant, would have an impact on comprehensive income of \$1,192,443 during the three month period ended September 30, 2024 (December 31, 2023 – \$1,644,648). Operating activities denominated in Euro, Singapore dollar, British pound and Indian Rupee have a minimal impact on the Company.