Pivot Technology Solutions, Inc.

Consolidated Financial Statements

December 31, 2019 and 2018

Dated: March 27, 2020

Management's responsibility for consolidated financial statements

The accompanying consolidated financial statements of Pivot Technology Solutions, Inc. ("Pivot" or the "Company") and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board, using management's best estimates and judgments, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Pivot within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management is also responsible for providing reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable consolidated financial statements. Management is required to design and maintain a system of internal accounting and administrative controls, and certify as to the design and operating effectiveness of internal control over financial reporting.

The board of directors of Pivot (the "Board of Directors") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors carries out this responsibility principally through its independent Audit Committee composed of unrelated and outside directors. The Audit Committee meets regularly with financial management and the independent auditors to discuss internal controls, auditing activities and financial reporting matters.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The independent auditors have full and free access to the Audit Committee to discuss their audit and related matters.

"Kevin Shank"
Kevin Shank
President and Chief Executive Officer

"David Toews"
David Toews
Chief Financial Officer

March 27, 2020

Independent auditor's report

To the Shareholders of
Pivot Technology Solutions, Inc.

Opinion

We have audited the consolidated financial statements of **Pivot Technology Solutions, Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards [IFRS].

Basis for opinion

We conducted our audit in accordance with Canadian general accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian general accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song, CPA, CA.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 27, 2020

Pivot Technology Solutions, Inc.
Consolidated Statements of Financial Position
As at December 31

(in thousands of U.S. dollars)	***notes***	**2019**	2018
ASSETS			
Current			
Cash and cash equivalents		**27,275**	15,312
Accounts receivable	*8*	**227,397**	229,916
Income taxes recoverable		**3,146**	2,877
Inventories		**39,514**	53,800
Deferred contract costs		**19,626**	18,840
Other current assets		**3,000**	3,940
Total current assets		**319,958**	324,685
Property, plant and equipment	*9*	**17,290**	6,334
Goodwill	*10*	**45,316**	45,177
Other intangible assets	*11*	**16,693**	24,680
Deferred tax assets	*22*	**8,190**	10,306
Deferred contract costs		**13,405**	9,617
Other non-current assets		**546**	520
Total assets		**421,398**	421,319
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness		**15,152**	18,171
Accounts payable and accrued liabilities	*12*	**222,659**	254,430
Income taxes payable		**144**	634
Deferred revenue and customer deposits		**6,965**	6,859
Deferred contract revenue		**22,840**	20,962
Other financial liabilities	*13*	**111,247**	100,184
Total current liabilities		**379,007**	401,240
Deferred tax liabilities	*22*	**385**	385
Deferred contract revenue		**14,261**	10,317
Other financial liabilities	*13*	**11,547**	1,178
Other non-current liabilities		**-**	951
Total liabilities		**405,200**	414,071
Shareholders' equity			
Share capital	*15*	**82,414**	82,705
Contributed surplus		**5,010**	4,631
Foreign exchange translation reserve		**(27)**	53
Accumulated deficit		**(73,915)**	(83,106)
Equity attributable to shareholders		**13,482**	4,283
Non-controlling interest	*25*	**2,716**	2,965
Total shareholders' equity		**16,198**	7,248
Total liabilities and shareholders' equity		**421,398**	421,319

See accompanying notes to consolidated financial statements.

Contingencies (note 13).

Subsequent events (notes 15, 25 and 28).

On behalf of the Board of Directors:

"Lazane Smith"
Lazane Smith

Audit Committee Chair and Director

"Kevin Shank"
Kevin Shank

President, CEO and Director

Pivot Technology Solutions, Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
Years ended December 31

(in thousands of U.S. dollars except per share amounts)	*notes*	**2019**	2018
Revenue	*17*	**1,218,124**	1,373,630
Cost of sales	*18*	**1,054,094**	1,210,477
Gross profit		**164,030**	163,153
Selling, general and administrative expenses	*18*	**137,226**	147,614
Income before depreciation and amortization, finance expense, change in fair value of liabilities and other expense (income)		**26,804**	15,539
Depreciation and amortization		**14,629**	11,352
Finance expense	*19*	**6,027**	6,120
Change in fair value of liabilities	*20*	**1,210**	653
Other expense (income)	*21*	**(15,746)**	877
Income (loss) before income taxes		**20,684**	(3,463)
Income tax expense	*22*	**6,966**	1,007
Net income (loss) for the year		**13,718**	(4,470)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to income (loss) for the year:			
Exchange gain (loss) on translation of foreign operations		**(80)**	16
Total comprehensive income (loss)		**13,638**	(4,454)
Attributable to:			
Shareholders		**13,887**	(4,575)
Non-controlling interests		**(249)**	121
Total comprehensive income (loss)		**13,638**	(4,454)
Earnings (loss) per common share:			
Income (loss) attributable to shareholders	*15*	**13,967**	(4,591)
Basic	*15*	**$ 0.35**	$ (0.12)
Diluted	*15*	**$ 0.35**	$ (0.12)

See accompanying notes to consolidated financial statements.

Pivot Technology Solutions, Inc.
Consolidated Statements of Changes in Shareholders' Equity

(in thousands of U.S. dollars)	Share capital	Contributed surplus	Non-controlling interests	Foreign currency translation reserve	Accumulated deficit	Total
Balance, January 1, 2018	84,411	3,847	2,844	37	(73,615)	17,524
Share-based compensation	-	461	-	-	-	461
Cash settlement of RSUs	-	(56)	-	-	-	(56)
Shares issued in vesting of RSUs	114	(170)	-	-	-	(56)
Purchase of shares for cancellation	(2,042)	614	-	-	-	(1,428)
Stock options exercised	222	(65)	-	-	-	157
Dividends declared *(note 15)*	-	-	-	-	(4,900)	(4,900)
Gain on translation of foreign operations	-	-	-	16	-	16
Net income (loss) for the year	-	-	121	-	(4,591)	(4,470)
Balance, December 31, 2018	82,705	4,631	2,965	53	(83,106)	7,248
Share-based compensation	**-**	**469**	**-**	**-**	**-**	**469**
Shares issued in vesting of RSUs	**206**	**(286)**	**-**	**-**	**-**	**(80)**
Purchase of shares for cancellation	**(497)**	**196**	**-**	**-**	**-**	**(301)**
Dividends declared *(note 15)*	**-**	**-**	**-**	**-**	**(4,776)**	**(4,776)**
Gain on translation of foreign operations	**-**	**-**	**-**	**(80)**	**-**	**(80)**
Net income (loss) for the year	**-**	**-**	**(249)**	**-**	**13,967**	**13,718**
Balance, December 31, 2019	**82,414**	**5,010**	**2,716**	**(27)**	**(73,915)**	**16,198**

See accompanying notes to consolidated financial statements.

Pivot Technology Solutions, Inc.
Consolidated Statements of Cash Flows
Years ended December 31

(in thousands of U.S. dollars)	*notes*	2019	2018
OPERATING ACTIVITIES			
Net income (loss) for the year		**13,718**	(4,470)
Add (deduct) items not involving cash			
Depreciation and amortization		**14,629**	11,352
Share-based compensation	*14*	**469**	461
Gain on disposition		**(22,134)**	-
Loss on disposal of property, plant and equipment		**153**	120
Change in provision for accounts receivable		**(133)**	225
Deferred income taxes	*22*	**2,088**	570
Amortization of loan fees	*13*	**273**	324
Change in fair value of liabilities	*20*	**1,210**	653
Changes in non-cash working capital	*23*	**(11,520)**	53,248
Net cash provided by (used in) operating activities		**(1,247)**	62,483
INVESTING ACTIVITIES			
Proceeds from disposition	*7*	**25,000**	-
Payments made on contingent consideration		**(2,433)**	(2,280)
Proceeds from sale of property, plant and equipment		**-**	55
Capital expenditures		**(964)**	(2,589)
Other intangible assets		**(3,336)**	(13)
Lease payments received from finance leases		**138**	-
Net cash provided by (used in) investing activities		**18,405**	(4,827)
FINANCING ACTIVITIES			
Net change in debt facilities		**7,668**	(36,412)
Debt issuance costs		**(800)**	-
Net change in flooring arrangements		**16**	(3)
Net change in bank indebtedness		**(3,019)**	(4,878)
Payment of lease liabilities		**(3,922)**	-
Dividends paid		**(4,776)**	(4,900)
Purchase of shares for cancellation		**(301)**	(1,428)
Stock options exercised		**-**	157
Cash settlement of RSUs, net of taxes		**(80)**	(112)
Net cash used in financing activities		**(5,214)**	(47,576)
Net increase in cash and cash equivalents during the year		**11,944**	10,080
Cash and cash equivalents, beginning of year		**15,312**	5,248
Foreign exchange gain (loss) on cash held in foreign currency		**19**	(16)
Cash and cash equivalents, end of year		**27,275**	15,312

See accompanying notes to consolidated financial statements.

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1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Pivot Technology Solutions, Inc. is a Canadian public company that provides mission critical information technology (“IT”) products and services to the world’s leading companies. Pivot Technology Solutions, Inc. is listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “PTG”. Its registered office is located at 55 Renfrew Drive, Suite 200, Markham, Ontario, Canada, L3R 8H3. Pivot Technologies Solutions, Inc. and its subsidiaries are together referred to, in these consolidated financial statements, as the “Company” or “Pivot”. Information on group structure is provided in *note 25*.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements were approved by the board of directors of Pivot (the “Board”) on March 27, 2020.

b) Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities classified at fair value through profit or loss.

Pivot’s consolidated financial statements are presented in United States (U.S.) dollars, which is the parent company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousands, unless otherwise noted.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those detailed in *note 5*.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Pivot and its subsidiaries. All material intercompany transactions and balances have been eliminated upon consolidation. The financial statements of Pivot’s subsidiaries are included within the Company’s consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Pivot, using consistent accounting policies.

Subsidiaries for which the Company does not wholly own but meet the criteria for consolidation are being fully consolidated within the Company’s consolidated financial statements. Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders’ equity in an entity consolidated by the Company for which the Company’s ownership is less than 100%. Changes in the Company’s ownership interest in its subsidiaries are accounted for as equity transactions.

b) Foreign Currency

The functional currency of each entity in the consolidated group is U.S. dollars, with the exception of TeraMach. The functional currency of TeraMach is Canadian dollars.

Transactions

Foreign currency transactions are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at that date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated at the exchange rates at the date when the fair value was determined. Foreign currency differences arising on re-translation are recognized in net income (loss), reflected as part of other expense (income).

Translation

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The revenue and expenses of foreign operations are translated at average rates for the period. The resulting foreign exchange differences are recognized in foreign currency translation adjustment as part of the other comprehensive income (loss). When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net income (loss) as part of the gain or loss on disposal.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash and short-term investments with original maturities of three months or less from the date of purchase. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

d) Accounts Receivable

Accounts receivable are valued at their original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Amounts are written off when the probability of recovery is assessed as being remote.

e) Inventories

Inventories, consisting primarily of finished goods, are valued at the lower of cost and net realizable value. Cost includes the costs of purchases plus other costs that are directly incurred to bring inventories to their location and condition, and are measured on a first-in, first-out basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes expenditures that are directly attributable to the acquisition of the asset, including costs incurred to prepare the asset for its intended use, costs to replace part of the asset, and capitalized borrowing costs if certain criteria are met. When significant parts of the asset are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives. Repair and maintenance costs are recognized in net income (loss) as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer and other equipment	3 to 5 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	Shorter of the estimated life of the asset or the lease term
Right-of-use assets	Term of the lease and renewal that is reasonably certain to be exercised

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

g) Borrowing Costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period incurred.

h) Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract.

When the Company is the lessee

The Company recognizes a right-of-use ("ROU") asset and a corresponding lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. The payments for leases with terms equal to or less than 12 months, or for underlying assets of low value, are expensed as incurred.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any initial direct costs incurred, less any incentives received. These are subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is depreciated over the lesser of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the Company's incremental borrowing rate if the rate implicit in the lease cannot be readily determined. Lease payments include fixed payments less any lease incentives receivable, and any variable lease payments where variability depends on an index or rate. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the renewal term or the cost of the option is included in the lease liability. Variable lease payments not dependent on index or rate are expensed as incurred.

When the Company is the lessor

When the Company acts as an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the ROU asset arising from the head lease. For leases that transfer substantially all of the risks and rewards, the Company classifies those as finance leases; all other leases are classified as operating leases.

i) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed in a business combination. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in net income (loss). It is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquired business are assigned to those units (*note 10)*. For detail on CGU, see *note 3(k).*

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

j) Other Intangible Assets

Other intangible assets that are acquired through a business combination are recorded at fair value determined upon acquisition. Other intangible assets that are acquired separately are initially recorded at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in net income (loss) in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Other intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses *(note 11)*. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The Company does not have other intangible assets with indefinite useful lives.

A summary of the policies applied to the Company's other intangible assets is as follows:

Type	Amortization method
Customer and vendor relationships	Straight-line basis over 10 years
Purchased and internally developed technology	Straight-line basis over 5 years
Other	Straight-line basis over 5 to 15 years

k) Impairment of non-financial assets

Non-financial assets consist of property, plant and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment. If there is any such indication, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and other indefinite-life intangible assets are tested for impairment annually on October 1.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. This grouping is referred to as a CGU. The Company has determined that each of the operating segments is a separate CGU for purposes of impairment testing. As a result of the integration effective January 1, 2020 *(note 25)*, all of the operations in the U.S. will be considered as one CGU.

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. The fair value less costs to sell is based on the information available at the time to reflect the amount that could be obtained from the disposal of the CGU in an arm's length transaction, net of estimates of disposal costs.

An impairment loss is recognized if the carrying value of a CGU exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Impairment losses on goodwill are not reversed. For assets other than goodwill, in respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and reversals not relating to goodwill are recognized in depreciation and amortization expense, and impairment on goodwill is recognized in other expense (income).

l) Employee Benefits

The Company maintains a defined contribution pension plan in which the Company pays contributions in accordance with the plan for eligible employees into a registered plan and has no obligation to pay further amounts. Contributions are recognized as an expense during the periods in which services are rendered.

m) Share-based Compensation

The Company has a share-based compensation plan under which the Company issues stock options and restricted share units ("RSUs"). The maximum number of common shares, which may be reserved and set aside for issuance upon the grant or exercise of stock option or RSU awards under the plan, is 10% of the Company's common shares issued and outstanding from time to time on a non-diluted basis.

Stock options

Stock options are granted to directors, officers, employees and consultants. Stock options granted to employees generally have a term of five or ten years and vest either immediately or in specified increments, which is typically two to three years. Stock options granted to consultants have a one-year vesting period, with 50% of the options vested and exercisable immediately, and the remainder vested and exercisable in equal quarterly instalments over the remaining year.

Stock options are measured at fair value. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options at the grant date. Measurement inputs include the price of shares on the measurement date, exercise price of the option, expected volatility, expected life of the option, expected dividends and the risk-free interest rate. Weighted average volatility and the forfeiture rates used are based on historical information.

At the grant date, stock options are recognized as share-based compensation expense, with a corresponding increase to contributed surplus. The expense is adjusted, at each reporting date, to reflect the estimated number of options expected to vest at the end of the vesting period. Compensation expense is recognized so that each tranche in an award with a graded vesting period is considered as a separate grant with a different vesting date and fair value. No compensation expense is recognized for options that are forfeited and have not met the service requirement for vesting. When stock options are exercised, the proceeds, as well as the related amount in contributed surplus, are credited to share capital.

Restricted share units

RSUs are granted to directors, officers, and employees. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, restrictions, time periods or other conditions established by the Board. The maximum aggregate number of common shares that may be issued as RSUs shall not exceed 1,250,000 shares.

RSUs usually have vesting period ranging from one to three years. The fair value of RSUs is measured on the grant date based on the closing fair market value of the Company's common shares. The compensation expense for RSUs is prorated over the vesting period, with a corresponding increase to contributed surplus. Expected forfeitures are incorporated as part of compensation expense and are revised to reflect changes in actual forfeitures. RSU participants are credited with dividend equivalents in

the form of additional units when dividends are paid on common shares in the ordinary course of business. Once the RSUs are vested, it will be the Company's option to settle in cash or shares.

n) Provisions

A provision is recognized in the consolidated statements of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that the settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the present value of management's best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. The accretion of the present value of the obligation due to the passage of time is recognized in finance expense. Provisions are reviewed on a regular basis and adjusted to reflect management's best estimate.

o) Contingent consideration

Contingent consideration usually relates to obligations of the Company in connection with acquisitions, payment of which is dependent on achieving certain predetermined performance targets subsequent to the acquisition. This is recorded at fair value at the acquisition date as part of other financial liabilities, and is remeasured at each reporting date. Changes as a result of re-measurement are recognized in the consolidated statement of income as change in fair value of liabilities.

p) Financial Instruments

The Company recognizes financial assets and liabilities when it becomes party to the contractual provisions of the financial instrument. Upon initial recognition, all financial instruments are measured at fair value; for financial instruments that are classified as amortized cost, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument are capitalized or netted with the carrying amount of the instruments and amortized using the effective interest method, otherwise, such transaction costs are expensed as incurred.

Financial assets

The classification and measurement for financial assets reflect the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and based on these categories: (i) amortized cost; (ii) fair value through other comprehensive income (loss) ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL").

A financial asset is measured at amortized cost if it is not designated as FVTPL and meets both conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition, less amortization using the effective interest method and any reduction for impairment.

A financial asset is measured at FVOCI if it is not designated as FVTPL and meets both conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, unrealized gains or losses are recognized in other comprehensive income (loss). Upon derecognition, realized gains or losses are reclassified from other comprehensive income (loss) and are recognized in net income (loss) for debt instruments and remain in other comprehensive income (loss) for equity investments. Interest income, foreign exchange gains or losses and dividends from equity investments are recognized in net income (loss).

A financial asset is measured at FVTPL unless it is measured at amortized cost or at FVOCI. Changes in fair value are recognized in net income (loss) in the period in which they are incurred.

Financial liabilities

Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL. Financial liabilities are measured at FVTPL if they are classified as held for trading; other non-derivative financial liabilities are classified at amortized cost. Derivative financial liabilities are classified at FVTPL.

The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, plus the accretion using the effective interest method, taking into account any discount or premium on acquisition and fees. The accretion is included as part of finance expense in the consolidated statements of income (loss) and comprehensive income (loss).

For financial liabilities that are measured at FVTPL, changes in fair value are recognized in net income (loss) in the period in which they are incurred.

Summary of financial instruments and classification

A summary of the Company's financial instruments is as follows:

	Classification and measurement
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Interest rate swaps	FVTPL
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Secured borrowings	Amortized cost
Contingent consideration	FVTPL

q) Impairment of Financial Assets

Financial assets consist of cash and cash equivalents and accounts receivable, which are held at amortized cost based on the business model and contractual cash flow characteristics of the instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates

the estimated future cash flows of the asset has been negatively impacted. The Company uses a forward-looking expected credit loss approach in assessing for impairment loss. Cash equivalents are considered to be low credit risk investments and any expected credit loss is determined based on the 12-month expected credit loss (“ECL”) approach. For its accounts receivable and any contract assets, the Company applies the simplified approach and calculates lifetime ECLs based on its historical credit loss experience and consideration for forward-looking factors specific to the debtors and the economic environment.

r) Fair Value Measurement

Fair value is the price at which an asset or liability could be exchanged between knowledgeable and willing participants at the measurement date under current market conditions other than in a forced or liquidation sale.

The Company measures financial assets and liabilities under the following fair value hierarchy:

- Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets;
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; or
- Level 3 – Significant unobservable inputs that are supported by little or no market activity.

The fair value of instruments that are quoted in active markets is determined using the quoted prices. For fair value of instruments where prices quoted in active markets are not available, inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument’s complexity.

Determination of fair value and the resulting hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of the financial instrument in the hierarchy is based upon the lowest level input that is significant to the fair value, which is reassessed at each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

s) Revenue

Pivot recognizes revenue for the transfer of goods or services to customers at an amount that reflects the consideration expected to be received for those goods or services. The Company generates revenue from: (i) sale of hardware and software, including storage devices and systems as well as computer products and peripherals; and (ii) rendering of value-added services such as design, integration, installation, maintenance and other consulting services, in combination with a variety of storage and computer hardware and software solutions.

Revenue from a hardware sale is recognized upon transfer of control to the customer, and when all significant contractual obligations have been satisfied and collection is reasonably assured. Revenue from

a software sale is recognized upon transfer of control to the customer. Revenue from the sale of both hardware and software is recognized at a point in time with each contract constituting one performance obligation.

Service revenue comprises Pivot Provided Services, vendor-provided services and maintenance contracts. Pivot Provided Service revenue is recognized over the period during which the service is performed. Revenue from vendor-provided services and maintenance contracts is recognized either on a gross or net basis, depending on whether the Company is acting as a principal or agent. At the time the Company enters into contracts with third-party service providers or vendors, the Company determines whether it acts as a principal in the transaction and assumes the risks and rewards of the rendering of the service, or if it is simply acting as an agent or broker. Where the Company is not the primary obligor for the maintenance contracts performed by third parties and is acting as agent, these arrangements do not meet the criteria for gross revenue presentation, and accordingly, are recorded at a point in time and net of the related costs. If the Company is acting as principal whereby the Company is assuming the risks and rewards of rendering the service, revenue is recognized over time and on a gross basis rateably over the term of the maintenance period. Revenue from the sale of maintenance contracts where the Company is acting as principal is recorded as deferred contract revenue on the consolidated statements of financial position at the time such contracts are invoiced, these are recognized on a pro rata basis over the service period. The transaction price associated with the performance obligations are determined by the respective contractual agreements.

t) Vendor Rebates

The Company receives funds from vendors for price protection, product rebates, marketing, promotions and other competitive pricing programs. The Company accounts for these rebates and other incentives received from its vendors, relating to the purchase of inventories, as a reduction of cost of sales or inventories.

u) Income Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred taxes are recognized using the asset and liability method of accounting on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:
- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred taxes relating to items recognized outside profit or loss are recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income (loss) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to income taxes raised by the same taxation authority on either the same taxable entity; or different taxable entities which intend, in each future period in which significant amounts of deferred tax are expected to be settled or recovered, to settle their current tax assets and liabilities either on a net basis or simultaneously.

v) Segment Information

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments. Currently, the Company's business activities are conducted through six segments *(note 27)*. As a result of the integration effective January 1, 2020 *(note 25)*, management will aggregate the operating segments in the U.S. into one segment on the basis of their similar economic characteristics, customers, and nature of products and services.

4. CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Due to the inherent uncertainty in making these critical judgments and estimates, actual outcomes could be different.

Estimates and assumptions are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management evaluates the judgments and estimates its uses on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas that require significant judgments and estimates are as follows:

- ***Determination of whether a promise to deliver goods and services is considered distinct***

  Individual products and services are accounted for separately if they are distinct (i.e., if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it). The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices.

- ***Determination of costs to obtain or fulfill a contract***

  Judgment is required to determine the timing and amount of costs that the Company will incur to obtain or fulfill a contract that meets the deferral criteria within IFRS 15 Revenue from Contracts with Customers.

- ***Determination of the transaction price***

  The transaction price is the amount of consideration that is enforceable and to which the Company expects to be entitled in exchange for the goods and services it has promised to its customer. The Company determines the transaction price by considering the terms of the contract and business practices that are customary within that particular line of business. Discounts, rebates and other incentives are reflected in the transaction price at contract inception.

- ***Determination of the stand-alone selling price and the allocation of the transaction price***

  The transaction price is allocated to performance obligations based on the relative stand-alone selling prices of the distinct goods or services in the contract. The Company estimates the stand-alone selling price based on the price of a good or service when it sells that good or service separately in similar circumstances and to similar customers.

- ***Determination of the recoverable amount of CGUs subject to an impairment test***

  Impairment exists when the carrying amount of a CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. Significant judgment is required to determine the key assumptions on recoverable amount for the different CGUs *(note 10)*.

- ***Valuation of deferred tax assets***

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future tax rates and

taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

5. NEW ACCOUNTING POLICIES ADOPTED

IFRS 16 – Leases ("IFRS 16")

On January 13, 2016, the International Accounting Standards Board ("IASB") published IFRS 16, which supersedes IAS 17, Leases ("IAS 17") and related interpretations. This new standard removes the distinction between operating and finance leases, and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The nature and timing of the related expense has changed as IFRS 16 replaces the straight-line lease costs with a depreciation charge for ROU assets and interest expense on lease liabilities.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated. Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019. The weighted average rate applied was 9%, and the weighted average incremental borrowing rate as at January 1, 2019 was 7.5%. ROU assets were measured at an amount equal to the lease liability, adjusted for any related prepaid or accrued rent, with no net impact on retained earnings. Short-term leases and leases of low value assets are expensed as incurred, and are reflected as part of selling, general and administrative expenses. For leases that were classified as finance leases under IAS 17, the carrying amount of the ROU assets and the lease liability as at January 1, 2019, was the carrying amount of the lease assets and lease liability immediately before the date of initial application. These are accounted for using IFRS 16 from that date.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the recognition exemptions for low value leases and leases that end within 12 months of the date of initial application, and accounted for those as low value and short-term leases, respectively;
- relied upon the Company's assessment of whether leases are onerous under the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as at December 31, 2018 as an alternative to reviewing the Company's ROU assets for impairment; and
- accounted for non-lease components and lease components as a single lease component.

Impacts on financial statements

On the consolidated statement of financial position, the cumulative effect of the changes made as at January 1, 2019 is as follows:

	Balance as at December 31, 2018 (as reported)	IFRS 16 adjustments	Balance as at January 1, 2019
Assets			
ROU assets	-	**16,468**	**16,468**
Other assets	4,460	**1,911**	**6,371**
Liabilities			
Lease liabilities	-	**18,379**	**18,379**

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

	January 1, 2019
Operating lease obligation as at December 31, 2018	21,015
Current leases with a lease term of twelve months or less (short-term leases)	(142)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(2,494)
Lease liabilities due to initial application of IFRS 16 as at January 1, 2019	**18,379**

On the consolidated statements of cash flows, the amount paid relating to the principal portion and interest are separately presented in financing activities and operating activities, respectively.

Amendments to IAS 12, Income taxes ("IAS 12") – Consequences of Payments on Financial Instruments Classified as Equity

In December 2017, the IASB issued amendments to IAS 12. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in net income or loss, other comprehensive income (loss) or equity according to where it originally recognized those past transactions or events. Effective January 1, 2019, the Company adopted the amendments to IAS 12, with no material impact on its consolidated financial statements.

International Financial Reporting Interpretation Committee Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

On June 7, 2017, the IASB issued IFRIC 23. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Effective January 1, 2019, the Company adopted the IFRIC 23, with no material impact on its consolidated financial statements.

6. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 3, Business Combinations ("IFRS 3") – Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. The amendments are effective January 1, 2020, with early adoption permitted. The amendments are applied prospectively to transactions or other events that occur on or after the date of first application. The adoption of the amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"); and IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These amendments are effective January 1, 2020. The adoption of these amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1 – Presentation of financial statements: classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments, and is currently assessing the impact of these amendment on its consolidated financial statements.

7. DISPOSITION

On October 25, 2019, the Company completed the sale of assets in Smart Edge to Intel Corporation for gross consideration of $27.0 million.

The proceeds included $25.0 million cash on closing, and $2.0 million to be paid 18 months after closing, subject to customary holdback terms and conditions. This resulted in a pre-tax gain of $22.3 million, before transaction costs of $0.9 million *(note 21)*.

8. ACCOUNTS RECEIVABLE

	2019	2018
Trade accounts receivable		
Current	**154,559**	174,283
One to three months	**67,292**	51,520
Over three months	**-**	2,230
	221,851	228,033
Other receivables	**5,999**	2,609
	227,850	230,642
Less allowance for doubtful accounts	**453**	726
Accounts receivable – net of allowance	**227,397**	229,916

The continuity of the allowance for doubtful accounts is as follows:

	2019	2018
Balance at the beginning of year	**726**	506
Provision for doubtful accounts	**143**	225
Write off of bad debts	**(128)**	(5)
Reversal of provision for amounts collected	**(288)**	-
Allowance for doubtful accounts	**453**	726

9. PROPERTY, PLANT AND EQUIPMENT

	ROU assets	Leasehold improvements	Furniture and fixtures	Computer and other equipment	Total
Cost					
As at January 1, 2018	-	5,955	2,043	7,238	15,236
Additions	-	1,010	307	1,272	2,589
Reclassifications	-	282	-	(671)	(389)
Disposals	-	(229)	(196)	(2,949)	(3,374)
Foreign currency translation	-	(86)	(36)	(94)	(216)
As at December 31, 2018	-	6,932	2,118	4,796	13,846
Adoption of IFRS 16	16,468	-	-	-	16,468
As at January 1, 2019	**16,468**	**6,932**	**2,118**	**4,796**	**30,314**
Additions	**491**	**138**	**43**	**292**	**964**
Reclassifications	**(120)**	**6**	**4**	**(218)**	**(328)**
Disposals	**(693)**	**(351)**	**(265)**	**(1,444)**	**(2,753)**
Foreign currency translation	**33**	**63**	**24**	**60**	**180**
As at December 31, 2019	**16,179**	**6,788**	**1,924**	**3,486**	**28,377**

	ROU assets	Leasehold improvements	Furniture and fixtures	Computer and other equipment	Total
Accumulated depreciation					
As at January 1, 2018	-	2,729	885	4,799	8,413
Reclassifications	-	1	7	(8)	-
Depreciation	-	869	318	1,274	2,461
Disposals	-	(149)	(135)	(2,915)	(3,199)
Foreign currency translation	-	(49)	(31)	(83)	(163)
As at December 31, 2018	-	3,401	1,044	3,067	7,512
Depreciation	**4,023**	**863**	**250**	**810**	**5,946**
Reclassifications	**(52)**	**-**	**-**	**(69)**	**(121)**
Disposals	**(368)**	**(349)**	**(263)**	**(1,392)**	**(2,372)**
Foreign currency translation	**8**	**46**	**12**	**56**	**122**
As at December 31, 2019	**3,611**	**3,961**	**1,043**	**2,472**	**11,087**
Carrying amounts					
December 31, 2018	-	3,531	1,074	1,729	6,334
December 31, 2019	**12,568**	**2,827**	**881**	**1,014**	**17,290**

The ROU assets represent office and warehouse space. The Company also sub-leases an office building that it leased in 2017. The Company has classified the sub-lease as a finance lease, because the sub-lease is for the whole of the remaining term of the head lease. The sub-lease is included in other current assets and other non-current assets in the consolidated statements of financial position.

Lease receivables recorded as at December 31, 2019 and 2018 were immaterial. The Company has no outstanding purchase commitments to purchase property, plant and equipment as at December 31, 2019 and 2018.

10. GOODWILL

	2019	2018
Balance at beginning of year	**45,177**	45,404
Foreign currency translation	**139**	(227)
Balance at end of year	**45,316**	45,177

The Company has five CGUs, four of which include goodwill. The carrying amount of goodwill allocated to each CGUs is identified separately in the table below:

	2019	2018
ACS	**29,135**	29,135
ProSys	**6,916**	6,916
Sigma	**6,453**	6,453
TeraMach	**2,812**	2,673
Goodwill	**45,316**	45,177

The Company performed its annual test for goodwill impairment in the fourth quarters of 2019 and 2018 in accordance with its policy described in *note 3*. The recoverable amount exceeded the carrying value for both 2019 and 2018. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test are described below. The selection and application of valuation techniques and the determination of significant assumptions requires judgment. The recoverable amount for each CGU was determined using a fair value less costs to sell ("market") approach.

The market approach assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate fair value. Under the market approach, fair value is calculated based on earnings multiples of benchmark companies comparable to the businesses in each CGU. Data for the benchmark companies was obtained from publicly available information, and ranged between 5.9 and 7.9 times Adjusted EBITDA.

The revenue and operating margin assumptions used were based on the individual CGU's internal forecast for the next fiscal year. In arriving at the forecast, the Company considered past experience and inflation as well as industry and market trends. The forecast also took into account the expected impact from new product initiatives, customer retention and efficiency initiatives. The Company has used earnings multiples for its CGUs similar to the range for benchmark companies.

The recoverable amount for each CGU as at December 31, 2019 and 2018 was in excess of its carrying value.

11. OTHER INTANGIBLE ASSETS

	Customer and vendor relationships	Purchased technology	Internally developed technology	Other	Total
Cost					
As at January 1, 2018	83,055	5,000	4,103	956	93,114
Additions	-	-	-	13	13
Reclassifications	-	-	-	385	385
Disposals	-	-	-	(723)	(723)
Foreign currency translation	(283)	-	-	-	(283)
As at December 31, 2018	82,772	5,000	4,103	631	92,506
Additions	**-**	**-**	**2,820**	**516**	**3,336**
Disposals	**-**	**-**	**(2,820)**	**(174)**	**(2,994)**
Foreign currency translation	**166**	**-**	**-**	**14**	**180**
As at December 31, 2019	**82,938**	**5,000**	**4,103**	**987**	**93,028**

	Customer and vendor relationships	Purchased technology	Internally developed technology	Other	Total
Accumulated amortization					
As at January 1, 2018	51,236	5,000	2,598	885	59,719
Amortization	7,897	-	808	186	8,891
Disposals	-	-	-	(723)	(723)
Foreign currency translation	(61)	-	-	-	(61)
As at December 31, 2018	59,072	5,000	3,406	348	67,826
Amortization	**7,713**	**-**	**697**	**273**	**8,683**
Disposals	**-**	**-**	**-**	**(234)**	**(234)**
Foreign currency translation	**46**	**-**	**-**	**14**	**60**
As at December 31, 2019	**66,831**	**5,000**	**4,103**	**401**	**76,335**
Carrying amounts					
December 31, 2018	23,700	-	697	283	24,680
December 31, 2019	**16,107**	**-**	**-**	**586**	**16,693**

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Accounts payable	**187,138**	215,784
Accrued liabilities	**35,521**	38,646
	222,659	254,430

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance (“IBM”), whereby approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. The agreement allows for up to $2.5 million in advances on purchases from approved vendors, and the maximum advance amount may be changed by IBM in its discretion. The Company incurs interest on the outstanding balance at LIBOR plus 4.5% after a free financing period of 60 days, but the interest rate and free financing period may be changed in IBM’s discretion. Included within accounts payable, amounts outstanding related to the IBM secured flooring agreement were $0.7 million and $0.6 million as at December 31, 2019 and 2018, respectively.

13. OTHER FINANCIAL LIABILITIES

	2019	2018
Current		
Secured borrowings	**106,737**	99,069
Contingent consideration	**1,732**	1,693
Cash-settled share-based compensation	**586**	-
Lease obligations *(note 5)*	**3,297**	-
	112,352	100,762
Deferred loan costs	**(1,105)**	(578)
	111,247	100,184
Non-current		
Contingent consideration	**-**	1,178
Cash-settled share-based compensation	**395**	-
Lease obligations *(note 5)*	**11,152**	-
	11,547	1,178
	122,794	101,362

Secured Borrowings

The Company entered into a five-year credit agreement on September 21, 2015, with a lending group represented by JPMorgan Chase Bank, N.A. ("JPMC"), which was extended and amended in 2019 with improvements in certain terms. The facility provides the Company a $225.0 million senior secured asset based revolving credit facility ("JPMC Credit Facility"), which may be used for revolving loans, letters of credit, protective advances, over advances, and swing line loans. Advances under the JPMC Credit Facility accrue interest at rates that are equal to, based on certain conditions, at the Company's election either (a) JPMC's "prime rate" as announced from time to time plus 0.0% to 0.25%, or (b) London Inter-Bank Offered Rate ("LIBOR"), or a comparable or successor rate that is approved by JPMC, for an interest period of one month plus 1.25% to 1.50%. The Company may also, upon the agreement of the existing lenders, increase the commitments under the credit facility by up to an additional $75.0 million. The lenders under the JPMC Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on May 14, 2024.

Under the terms of the JPMC Credit Facility, the covenants require that the Company maintain a fixed charge coverage ratio of at least 1.0 to 1.0 on a trailing 12-month basis, triggered in the event that availability is less than 12.5% of the revolving commitment, until such time that availability has been greater than 12.5% of the revolving commitment for 60 consecutive days, in which case, the Company would no longer be subject to such fixed charge coverage ratio unless the availability were to again become less than 12.5% of the revolving commitment. The Company was in compliance with all applicable covenants at December 31, 2019 and 2018.

The Company incurred costs associated with setting up the credit agreement, which have been capitalized and are being amortized over the life of the credit agreement. Amounts owing under the Company's revolving credit facility were $106.7 million and $99.1 million as at December 31, 2019 and 2018, respectively. Average undrawn availability on the existing, secured credit facility was $72.2 million and $73.8 million for the years ended December 31, 2019 and 2018, respectively.

Contingent Consideration

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach. The purchase agreement with TeraMach included an obligation for contingent consideration, whereby payments are dependent on the business achieving certain performance targets during the four consecutive 12-month periods ending September 30, 2020. TeraMach has achieved all of the performance targets at September 30, 2019. As a result, the Company reached an agreement, in December 2019, to prepay the remaining consideration in full, at the undiscounted value of C$2.0 million no later than May 1, 2020.

The changes in the TeraMach contingent liability balance for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Balance at beginning of year	**2,235**	3,326
Change in fair value *(note 20)*	**1,103**	1,052
Payments	**(1,883)**	(1,880)
Foreign currency translation	**84**	(263)
Balance at end of year	**1,539**	2,235

On July 1, 2017, the Company acquired certain customer accounts, contracts, agreements and other arrangements from Cloudscapes. As part of the purchase agreement with Cloudscapes, the Company is obligated to pay up to $0.1 million per quarter for 11 quarters and a bonus of $0.2 million, commencing on October 1, 2017 and ending on April 30, 2020. All payments are based on the achievement of certain gross margin targets. At the date of acquisition, the fair value of the contingent liability was determined to be $1.0 million. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is $0.2 million.

The changes in the Cloudscapes contingent liability balance for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Balance at beginning of year	**636**	930
Change in fair value *(note 20)*	**107**	106
Payments	**(550)**	(400)
Balance at end of year	**193**	636

Lease Obligations

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2019:

One year	4,433
One to two years	4,168
Two to five years	5,989
Over five years	2,313
Total undiscounted lease obligations	**16,903**

Lease obligations outstanding as at December 31, 2019 include liabilities related to office and warehouse leases, discounted at a weighted average rate of 7.5%, with remaining lease terms ranging up to eight years.

Total cash outflow for leases for the 2019 year was $5.1 million, including $0.1 million for short-term leases. Variable lease payments were $0.9 million for the 2019 year, and expenses for leases of low-dollar value items are not material. All extension options have been considered in the measurement of lease obligations.

14. SHARE-BASED COMPENSATION

The Company's share-based compensation expense includes stock option and RSU plans. The expense was recognized in the consolidated statements of income (loss) as part of selling, general and administrative expense as follows.

	2019	2018
Share-based compensation on options	**174**	186
Share-based compensation on RSUs	**295**	275
Total share-based compensation expense	**469**	461

The carrying amounts of the Company's share-based compensation arrangements were recorded on the consolidated statements of financial position as follows:

	2019	2018
Other financial liabilities (current) – stock options	**588**	-
Other financial liabilities (non-current) – stock options	**395**	-
Contributed surplus – stock options	**1,180**	1,006
Contributed surplus – RSUs	**178**	169

Stock Options

The Company has an incentive share option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not

exceed 10% of the issued common shares of the Company, at the time the options were granted. Employee options granted under the plan generally have a term of five or ten years and vest either immediately or in specified increments, which is typically two to three years. The exercise price of each option is subject to Board approval, but shall not be less than the market price at the time of grant.

A summary of the Company's stock option plan activity is as follows:

	2019		2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding at January 1	**2,118,750**	**C$1.79**	1,946,875	C$1.79
Options granted	**195,000**	**C$1.54**	510,000	C$1.68
Options forfeited	**(130,000)**	**C$1.79**	(214,166)	C$1.64
Options expired	**(62,500)**	**C$1.65**	-	-
Options exercised	**-**	**-**	(123,959)	C$1.60
Options outstanding at December 31	**2,121,250**	**C$1.77**	2,118,750	C$1.79
Options exercisable at December 31	**1,476,249**	**C$1.76**	1,322,082	C$1.69

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2019	2018
Expected volatility	**47.60%**	47.98%
Risk-free interest rate	**1.51%**	2.15%
Dividend yield	**10.39%**	10.55%
Forfeiture rate	**5.5%**	5.5%
Expected life	**3.4 years**	3.1 years

The summary of the Company's options are as follows:

			December 31, 2019
Exercisable price C$	**Number of options outstanding**	**Weighted average remaining contractual life**	**Number of options exercisable**
1.54	195,000	4.9 years	-
1.60	1,056,250	6.5 years	1,056,250
1.68	480,000	3.7 years	159,998
2.47	380,000	2.5 years	253,334
2.61	10,000	2.7 years	6,667
	2,121,250		1,476,249

			December 31, 2018
Exercisable price C$	Number of options outstanding	Weighted average remaining contractual life	Number of options exercisable
1.60	1,168,750	7.5 years	1,168,750
1.68	510,000	4.7 years	-
1.73	25,000	8.0 years	25,000
2.47	405,000	3.5 years	134,999
2.61	10,000	3.7 years	3,333
	2,118,750		1,332,082

Restricted Stock Units

The Company has a restricted share plan that allows the Company to award RSUs to directors, officers, employees and consultants upon such conditions as the Board may establish. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, restrictions, time periods or other conditions established by the Board. The maximum aggregate number of shares that may be issued under the restated plan pursuant to the exercise of RSUs shall not exceed 1,250,000 shares. The maximum number of common shares, which may be reserved and set aside for issuance upon the grant or exercise of RSU or stock option awards under the plan, is 10% of the Company's common shares issued and outstanding from time to time on a non-diluted basis. The fair value of RSUs is measured on the grant date based on the closing fair market value of the Company's common stock. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period, which is generally one to three years for RSUs.

A summary of the Company's RSU plan activity is as follows:

	2019		2018	
	Number of units	**Weighted average grant date fair value**	Number of units	Weighted average grant date fair value
Units outstanding at January 1	**697,538**	**C$1.91**	355,000	C$2.47
Units granted	**75,000**	**C$1.54**	410,000	C$1.66
Units reinvested – dividends	**73,843**	**C$1.94**	66,031	C$1.68
Units released	**(248,334)**	**C$2.02**	(118,334)	C$2.47
Units forfeited	**(39,200)**	**C$1.99**	(15,159)	C$2.47
Units outstanding at December 31	**558,847**	**C$1.88**	697,538	C$1.91

As at December 31, 2019 and 2018, there was $0.9 million and $0.7 million, respectively, of total unrecognized compensation cost related to unvested RSU arrangements. This expense is expected to be recognized over a weighted average period of 2.1 years.

Smart Edge Phantom Stock

In February 2019, Smart Edge issued 536,000 shares of phantom stock to a former executive of Smart Edge. As of the grant date and December 31, 2019, the award was valued at $0.5 million, reflected as part of other financial liabilities. As a result of the disposition (*note 7*), $0.4 million vested immediately to be settled in cash, with the remainder $0.1 million to be paid out within two years. Compensation costs related to the phantom stock award of $0.5 million for the year ended December 31, 2019 are included in other expense (income).

15. SHARE CAPITAL

The issued share capital amounted to $82.4 million and $82.7 million as at December 31, 2019 and 2018, respectively. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the years ended December 31, 2019 and 2018 were as follows:

(number of common shares)	**2019**	2018
Balance at beginning of year	**39,473,032**	40,229,930
Stock options exercised	**-**	123,959
Share repurchases and subsequent cancellations	**(237,310)**	(960,600)
Shares issued in vesting RSUs	**178,344**	79,743
Balance at end of year	**39,414,066**	39,473,032

No preferred shares were issued or outstanding as at December 31, 2019 or 2018.

Normal Course Issuer Bid (“NCIB”)

In the second quarter of 2019, the Company renewed its NCIB to purchase up to 3,791,395 common shares, representing approximately 10% of outstanding common shares. Subject to regulatory restrictions, the Company may purchase its common shares from time to time, between June 24, 2019 and June 23, 2020, or on such earlier date as the NCIB is complete, at prevailing market prices at the time of purchase, and any common shares purchased will be cancelled.

In December 2019, the Company entered into an Automatic Share Purchase Plan with Echelon Wealth Partners, Inc. (“Echelon”) for the purpose of permitting the purchase of common shares under NCIB at times when the Company would not be permitted to purchase shares due to regulatory restrictions or blackout periods. Such purchases were determined by Echelon in its sole discretion based on parameters established prior to any blackout period, in accordance with the rules of the TSX and applicable securities laws.

As at December 31, 2019, the Company has purchased and cancelled 237,310 common shares under its current NCIB. During 2018, under similar NCIB programs, the Company purchased and cancelled 960,600 common shares.

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS) is calculated by dividing the income (loss) attributable to shareholders for the period by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the income (loss) attributable to shareholders and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include stock options and unvested RSUs, which are excluded from the computation in periods which they are anti-dilutive.

	2019	2018
Income (loss) attributable to shareholders	**13,967**	(4,591)
Weighted average number shares outstanding *(number of common shares)*		
Basic	**39,546,901**	39,862,062
Dilutive effect of stock options[(1)]	**-**	-
Dilutive effect of RSUs	**558,847**	-
Diluted	**40,105,748**	39,862,062
Earnings (loss) per share		
Basic	**$ 0.35**	$ (0.12)
Diluted	**$ 0.35**	$ (0.12)

[(1)]The calculation of diluted weighted average number of shares excludes 2.1 million stock options for each of the years ended December 31, 2019 and 2018, as the exercise price of these stock options was greater than the weighted average share prices.

Dividends

The declaration and payment of dividends on the Company's common shares are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flows, and other relevant factors. The Company declared C$0.04 every quarter for a total of C$0.16 for each of the years ended December 31, 2019 and 2018. Total dividends paid were $4.8 million and $4.9 million for the years ended December 31, 2019 and 2018, respectively.

Subsequent to December 31, 2019, the Board declared a quarterly dividend of $0.04 per common share, paid on March 16, 2020 to shareholders of record on February 28, 2020.

16. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure that adequate resources are available to manage the Company's operations and fund organic growth while providing dividends to shareholders, funding strategic investments including acquisitions and re-acquiring shares under the NCIB. The Board of Directors continually evaluates the dividend policy after giving consideration to these objectives and the Company's future prospects.

The summary below outlines the Company’s total capital under management:

	2019	2018
Other financial liabilities	**122,794**	101,362
Bank indebtedness	**15,152**	18,171
Total debt	**137,946**	119,533
Less cash and cash equivalents	**(27,275)**	(15,312)
Net debt	**110,671**	104,221
Equity attributable to shareholders of the Company	**13,482**	4,283
Total capital under management	**124,153**	108,504

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances.

The Company is subject to certain key financial covenants under its JPMC Credit Facility. These covenants, which include fixed charge ratios as defined in the agreement, are monitored regularly to ensure compliance. As at December 31, 2019, the Company was in compliance with all covenants. The Company is not subject to any externally imposed capital requirements and there has been no change in the Company’s capital management approach during the year.

17. REVENUE

Types of goods and services:

Year ended December 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
Product sales	**302,836**	**12,680**	**489,991**	**179,368**	**81,911**	**6**	**1,066,792**
Pivot provided services	**7,416**	**-**	**44,428**	**18,635**	**9,339**	**4**	**79,785**
Third-party services	**18,335**	**-**	**37,919**	**10,988**	**4,266**	**2**	**71,547**
Total revenue	**328,587**	**12,680**	**572,338**	**208,991**	**95,516**	**12**	**1,218,124**

Year ended December 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Product sales	384,974	9,207	611,167	147,196	63,075	1	1,215,620
Pivot provided services	10,526	-	44,992	24,996	8,679	5	89,189
Third-party services	14,814	-	37,639	12,599	3,760	-	68,821
Total revenue	410,314	9,207	693,798	184,791	75,514	6	1,373,630

Certain comparative information has been reclassified to conform to current year presentation.

Geographical markets:

Year ended December 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
United States	**316,900**	**12,680**	**564,291**	**195,305**	**-**	**-**	**1,089,176**
Canada	**1,400**	**-**	**239**	**1,228**	**95,244**	**-**	**98,110**
International	**10,287**	**-**	**7,809**	**12,458**	**272**	**12**	**30,838**
Total revenue	**328,587**	**12,680**	**572,338**	**208,991**	**95,516**	**12**	**1,218,124**

Year ended December 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
United States	401,011	9,207	686,902	173,984	-	-	1,271,104
Canada	1,075	-	60	104	75,486	-	76,725
International	8,228	-	6,836	10,703	28	6	25,801
Total revenue	410,314	9,207	693,798	184,791	75,514	6	1,373,630

Timing of revenue recognition:

Year ended December 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
Goods transferred at a point in time	302,836	12,680	489,991	179,368	81,911	6	1,066,792
Services transferred at a point in time	12,348	-	44,428	22,178	10,920	4	89,878
Services transferred over time	13,403	-	37,919	7,445	2,685	2	61,454
Total revenue	**328,587**	**12,680**	**572,338**	**208,991**	**95,516**	**12**	**1,218,124**

Year ended December 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Goods transferred at a point in time	384,974	9,207	611,167	147,196	63,075	1	1,215,620
Services transferred at a point in time	16,762	-	44,992	31,143	10,304	5	103,206
Services transferred over time	8,578	-	37,639	6,452	2,135	-	54,804
Total revenue	410,314	9,207	693,798	184,791	75,514	6	1,373,630

The Company had two customers that represented 19.1% and 29.9% of revenue for the year ended December 31, 2019 and 2018, respectively.

18. EMPLOYEE COMPENSATION AND BENEFITS

	2019	2018
Employee compensation and benefits	**25,275**	28,057
Other cost of sales	**1,028,819**	1,182,420
Cost of sales	**1,054,094**	1,210,477

	2019	2018
Employee compensation and benefits	**113,488**	116,442
Other selling, general and administrative expenses	**23,738**	31,172
Selling, general and administrative expenses	**137,226**	147,614

19. FINANCE EXPENSE

	2019	2018
Interest expense, net	**4,760**	6,120
Accretion expense	**1,267**	-
	6,027	6,120

As a result of the adoption of IFRS 16 *(note 5)*, lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, and are subsequently increased by finance expense through accretion, and decreased by lease payments made.

20. CHANGE IN FAIR VALUE OF LIABILITIES

	2019	2018
Contingent consideration	**1,210**	1,158
Interest rate swap	**-**	(505)
	1,210	653

Contingent Consideration

Changes in the fair value of contingent consideration were related to the TeraMach acquisition in 2016 and the Cloudscapes acquisition in 2017 *(note 13)*.

Interest Rate Swap

The Company entered into an interest rate forward swap agreement (the “Swap”) in 2014 to mitigate the exposure to interest rate fluctuations. All interest rate swap contracts are measured at FVTPL, and hedge accounting has not been applied. Changes in the fair value were recorded in the consolidated statements of income (loss) and comprehensive income (loss). The Swap expired on November 13, 2018.

21. OTHER EXPENSE (INCOME)

	2019	2018
Gain on sale *(note 7)*	**(22,341)**	-
Restructuring costs	**3,079**	2,534
Transaction costs *(note 7)*	**1,530**	312
Foreign exchange loss (gain)	**1,916**	(2,082)
Other	**70**	113
	(15,746)	877

The Company completed the sale of assets in Smart Edge for a pre-tax gain of $22.3 million, before transaction costs of $0.9 million *(note 7)*.

Commencing the third quarter of 2018, the Company initiated certain activities to accelerate its commercial transformation whereby customers are engaged in a more strategic fashion to develop comprehensive relationships built on the value of selling the Company's expanded portfolio. Consequently, restructuring costs were incurred related to the commercial transformation and cost reduction initiatives.

22. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets are as follows:

	2019	2018
Intangible assets	**2,369**	3,214
Contingent/fixed consideration	**63**	2,486
Reserves and provisions	**3,322**	2,116
Property, plant and equipment	**(77)**	8
ROU assets	**(2,948)**	-
Lease liability	**3,308**	-
Share-based compensation	**62**	29
Tax attribute carryforwards	**934**	2,302
Other	**772**	(234)
	7,805	9,921

Net deferred tax assets are reflected on the statement of financial position as follows:

	2019	2018
Deferred tax assets	**8,190**	10,306
Deferred tax liabilities	**(385)**	(385)
	7,805	9,921

As of December 31, 2019, the Company has tax losses of $26.8 million that arose in Canada that are available for offset against future taxable profits. These losses begin to expire in 2031. The Company has U.S. federal and state tax losses of $4.2 million and $1.4 million, respectively, which begin to expire in 2032 and 2036, respectively.

Net deferred tax assets of $7.8 million and $9.9 million have been recognized on the consolidated statements of financial position as at December 31, 2019 and 2018, respectively. Additionally, there were deferred tax assets of $7.1 million as at December 31, 2019, which have not been recognized; these unrecognized deferred tax assets have arisen in subsidiaries that have no history of profitability; hence, the related benefit of utilizing these losses to offset taxable profits elsewhere in the Company have not been recognized.

There are no significant temporary differences related to the investment in subsidiaries.

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As a result, deferred tax liability that would be payable on the unremitted earnings was not recognized as at December 31, 2019 and 2018.

Significant components of the provision for income taxes are as follows:

	2019	2018
Current tax expense	**4,878**	437
Deferred tax expense	**2,088**	570
	6,966	1,007

The disposition of the assets in Smart Edge in the fourth quarter of 2019 *(note 7)* resulted in $5.2 million of current tax expense.

The provision for income taxes differed from the amount computed by applying the combined federal and provincial statutory rate as follows. Any change in the applicable tax rate reflects appropriate substantially enacted law.

	2019	2018
Expected income tax at combined statutory rate	**5,480**	(919)
Unrecognized temporary differences	**1,544**	97
Permanent differences	**1,423**	899
Differences in income tax rates of foreign jurisdictions	**(541)**	277
Adjustments in respect to income taxes of previous years	**(799)**	623
Base erosion and anti-abuse tax	**-**	314
Research and development credits	**(242)**	(142)
Other	**101**	(142)
Income tax expense	**6,966**	1,007

23. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances consist of the following:

	2019	2018
Accounts receivable	**2,820**	61,625
Income taxes recoverable	**(726)**	(2,533)
Inventories	**14,265**	41,281
Other assets	**(2,543)**	5,405
Accounts payable and accrued liabilities	**(28,910)**	(50,853)
Other liabilities	**3,574**	(1,677)
	(11,520)	53,248

Interest paid and income taxes paid are classified as operating activities are as follows:

	2019	2018
Interest paid	**4,093**	5,097
Income taxes paid	**5,149**	1,765

24. FINANCIAL INSTRUMENTS AND MANAGEMENT OF RISKS

a) Classification of Financial and Non-Financial Assets and Liabilities and Fair Values

As at December 31, 2019	FVTPL	Amortized cost	Non-financial	Total carrying amount	Fair value hierarchy
Cash and cash equivalents	-	27,275	-	27,275	
Accounts receivable	-	227,397	-	227,397	
Inventories	-	-	39,514	39,514	
Other intangible assets	-	-	16,693	16,693	
Goodwill	-	-	45,316	45,316	
Deferred contract costs	-	-	33,031	33,031	
Other non-financial assets	-	-	32,172	32,172	
Total assets	-	254,672	166,726	421,398	
Bank indebtedness	-	15,152	-	15,152	
Accounts payable and accrued liabilities	-	222,659	-	222,659	
Deferred contract revenue	-	-	37,101	37,101	
Contingent consideration[1]	1,732	-	-	1,732	Level 3
Cash-settled share-based compensation[1]	981	-	-	981	Level 3
Other financial liabilities, excluding contingent consideration and cash-settled share-based compensation	-	120,081	-	120,081	
Other non-financial liabilities	-	-	7,494	7,494	
Total liabilities	2,713	357,892	44,595	405,200	

[1]*Included in other financial liabilities*

As at December 31, 2018	FVTPL	Amortized cost	Non-financial	Total carrying amount	Fair value hierarchy
Cash and cash equivalents	-	15,312	-	15,312	
Accounts receivable	-	229,916	-	229,916	
Inventories	-	-	53,800	53,800	
Other intangible assets	-	-	24,680	24,680	
Goodwill	-	-	45,177	45,177	
Deferred contract costs	-	-	28,457	28,457	
Other non-financial assets	-	-	23,977	23,977	
Total assets	-	245,228	176,091	421,319	
Bank indebtedness	-	18,171	-	18,171	
Accounts payable and accrued liabilities	-	254,430	-	254,430	
Deferred contract revenue	-	-	31,279	31,279	
Contingent consideration[(1)]	2,871	-	-	2,871	Level 3
Other financial liabilities, excluding contingent consideration	-	98,491	-	98,491	
Other non-financial liabilities	-	-	8,829	8,829	
Total liabilities	2,871	371,092	40,108	414,071	

[(1)] *Included in other financial liabilities*

The Company used a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived:

- Level 1 – use of quoted market prices;
- Level 2 – internal models using observable market information as inputs; and
- Level 3 – internal models without observable market information as inputs.

The amortized costs of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates fair value due to their short-term nature. The amortized cost of secured borrowings included in other financial liabilities also approximates fair value because it bears a variable interest rate.

Contingent consideration payable was recorded as Level 3 as the amounts payable were not based on observable inputs. The fair value of the contingent consideration was calculated using forecasts based on financial plans prepared by management covering the periods under agreements, using a discount rate of 15.5% for 2018; amounts as at December 31, 2019 was adjusted to reflect the payment to be paid within the next year. The Company recorded a charge of $1.2 million and $0.7 million related to the change in fair value of the contingent consideration for the years ended December 31, 2019 and 2018, respectively.

Cash-settled share-based compensation was also recorded as Level 3 as the amounts payable were not based on observable inputs.

There have been no transfers among any levels during the years ended December 31, 2019 and 2018.

b) Management of Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Two customers represented 22% and 34% of the outstanding accounts receivable balance as at December 31, 2019 and 2018, respectively. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. The Company monitors its risk to a shortage of funds by monitoring its forecast, working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank indebtedness and bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at December 31, 2019	**On demand**	**Less than one year**	**Greater than one year**	**Total**
Bank indebtedness	**15,132**	**-**	**-**	**15,132**
Secured borrowings[(1)]	**106,737**	**-**	**-**	**106,737**
Accounts payable and accrued liabilities	**-**	**222,659**	**-**	**222,659**
Contingent consideration	**-**	**1,732**	**-**	**1,732**
	121,869	**224,391**	**-**	**346,260**

[(1)]Excluded interest on secured borrowings.

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 subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness, loans and borrowings. The JPMC Credit Facility carries floating interest rates that are tied to LIBOR or the prime rate, and therefore, the Company's income and its cash flows will be exposed to changes in interest rates to the extent that effective hedging arrangements are not in place. Based upon a sensitivity analysis as at December 31, 2019 and 2018, a 1.0% change in interest rates would have changed the Company's floating rate obligations under the JPMC

Credit Facility by approximately $1.1 million and $0.7 million, respectively. The Company does not use derivative financial instruments for speculative or trading purposes.

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 net exposure to currency risk is the Company's operations in Canada *(see note 27)*. Every ten cent strengthening of the U.S. dollar against the Canadian dollar would favourably impact net income by $0.3 million.

25. INTERESTS IN OTHER ENTITIES

The following table includes the significant subsidiaries and affiliates of the Company as at December 31:

		Equity Interest	
Name	**Jurisdiction**	**2019**	2018
1955714 Ontario Inc.	Canada	**100%**	100%
ACS Holdings (Canada) Inc.	Canada	**100%**	100%
ACS Holdings Corporation	Canada	**94%**	94%
ACS (U.S.) Inc.	United States	**100%**	100%
Applied Computer Solutions	United States	**40%**	40%
ARC Acquisition (US) Inc.	United States	**100%**	100%
Infoptic Technology Inc.	Canada	**100%**	100%
Pivot Acquisition Corporation	Canada	**100%**	100%
Pivot of the Americas S.A. de C.V.	Mexico	**100%**	100%
Pivot Research Ltd.	Jersey	**100%**	100%
Pivot Services International Singapore Pte. Ltd.	Singapore	**94%**	94%
Pivot Services Japan G. K.	Japan	**94%**	-
Pivot Services Limited	Hong Kong	**94%**	94%
Pivot Shared Services Ltd.	Ireland	**100%**	100%
Pivot Solutions International (UK) Ltd.	United Kingdom	**100%**	100%
Pivot Technology Services Corporation (fka New ProSys Corp.)	United States	**100%**	100%
Pivot Technology Services Pty Ltd.	Australia	**100%**	-
Pivot Technology Solutions, Ltd.	United States	**100%**	100%
ProSys Information Systems Inc.	United States	**46%**	46%
Sigma Technology Solutions Inc.	United States	**100%**	100%
Smart-Edge.com, Inc.	United States	**100%**	100%
TeraMach Systems Inc.	Canada	**100%**	100%
TeraMach Technologies Inc.	Canada	**100%**	100%

Integration

One of the Company's integration initiatives was to integrate certain U.S. wholly owned subsidiaries and related business units into a single Pivot brand through a merger. Effective December 31, 2019, ACS (U.S.) Inc. and Sigma Technology Solutions Inc. were merged into Pivot Technology Services Corporation. In addition, 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Systems Inc. were amalgamated into Pivot Acquisition Corporation, effective January 1, 2020.

Applied Computer Solutions ("Applied")

Applied is a 40% owned affiliate of the Company, whose principal office is located in Huntington Beach, California, United States of America. Despite not owning a majority of the voting rights, the Company controls this entity for accounting purposes, based on the following facts and circumstances:

- Pivot has the right in its sole discretion to either acquire, at any time, shares of Applied that it does not already own, or to designate a different owner to purchase the shares provided such transfer(s) are in compliance with applicable Women Business Enterprise (WBE) requirements;
- Pivot has multiple representatives on the Applied board of directors; and
- any significant decisions made at Applied requires the approval of the Applied board of directors and/or shareholders, including board changes, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of $100, causing any material change in the business, and/or assignment or termination of any material agreement.

The following table summarizes the financial information of Applied:

	2019	2018
Current assets	**12,709**	860
Non-current assets	**19,389**	19,316
Current liabilities	**29,113**	17,640
Non-current liabilities	**2,287**	1,903
Revenue	**231,487**	281,671
Total comprehensive income (loss)	**65**	(192)
% interest held	**40%**	40%
Cash used in operating activities	**(7,154)**	(1,169)
Cash used in investing activities	**(25)**	-
Cash provided by financing activities	**7,258**	1,180
Net increase in cash and cash equivalents	**79**	11

Total sales attributable to the activities of Applied were $231.5 million and $281.7 million for the years ended December 31, 2019 and 2018, respectively. Amounts due from Applied were $23.3 million and $16.1 million as at December 31, 2019 and 2018, respectively.

ProSys Information Systems, Inc. (“Old ProSys)

Old ProSys is a 46.4% owned affiliate of the Company, whose principal office is located in Norcross, Georgia, United States of America. Despite not owning a majority of the voting rights, the Company controls this entity for accounting purposes based on the following facts and circumstances:

- Pivot has the right to either acquire, at any time, the remaining shares of Old ProSys it does not already own or to designate a different owner to purchase the shares provided such transfer(s) are in compliance with applicable WBE requirements;
- Pivot is represented on the Old ProSys board of directors and any significant decisions made at Old ProSys requires the approval of the board of directors and/or shareholders, including changes to its board of directors, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of $0.1 million, causing any material change in the business, and/or assigning or termination of any material agreement; and
- Pivot receives the majority of the benefits from the activities of Old ProSys.

The Company has certain contractual arrangements with Old ProSys, which provide the Company the majority of the variable returns from Old ProSys activities..

The Company has certain contractual arrangements with Old ProSys, whose activities and results are consolidated with the Company. The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Old ProSys to its third-party customers. Total sales attributable to the activities of Old ProSys were approximately $258.4 million and $425.3 million for the years ended December 31, 2019 and 2018, respectively. Amounts due from Old ProSys were $18.2 million and $83.2 million as at December 31, 2019 and 2018, respectively.

The following table summarizes the financial information of Old ProSys:

	2019	2018
Current assets	**23,628**	89,890
Non-current assets	**539**	-
Current liabilities	**19,469**	83,666
Non-current liabilities	**-**	-
Revenue	**258,374**	425,302
Total comprehensive income (loss)	**(575)**	439
% interest held	**46.4%**	46.4%
Cash provided by operating activities	**64,197**	12,238
Cash used in investing activities	**-**	-
Cash used in financing activities	**(64,197)**	(12,238)
Net change in cash and cash equivalents	**-**	-

26. RELATED PARTY TRANSACTIONS

a) Transactions with Related Parties

The Company has certain contractual arrangements with Old ProSys and Applied, whose activities and results are consolidated with the Company *(note 25)*. The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Old ProSys and Applied to its third-party customers.

These contractual arrangements accounted in aggregate for 40.2%% and 51.5% of the Company's total revenue for the years ended December 31, 2019 and 2018, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

The Company incurred $1.0 million for year ended December 31, 2018 for research and development provided by a related entity where certain officers of ACS and Smart Edge had significant influence. The Company terminated this agreement in August 2018. $0.6 million was payable as at December 31, 2018.

b) Key Management Compensation

The annual compensation of key management was as follows:

	2019	2018
Compensation	**1,566**	2,001
Annual incentive plans	**1,426**	686
Share-based compensation	**-**	105
Other compensation	**92**	1,151
	3,084	3,943

27. SEGMENT INFORMATION

The Company's business activities are conducted through six segments:

Segments

ACS

ACS is headquartered in Huntington Beach, California, and is one of the largest independent providers of midrange IT solutions and system integration services in the United States. Its IT solutions are focused on several practice areas essential to enterprise infrastructures: systems, storage, security, networking and compliance. ACS provides exclusive IT services, which enable businesses to optimize their IT infrastructure and improve the efficiency of mission-critical processes. ACS was merged into Pivot Technology Services Corporation effective December 31, 2019.

ARC

ARC is headquartered in San Antonio, Texas and delivers ruggedized IT solutions to federal, state, county and local municipalities with a focus on public safety.

ProSys

With its headquarters located in Norcross, Georgia, ProSys is a leading provider of multi-branded IT infrastructure solutions to enterprise, public sector and educational customers, primarily in the southeast region of the United States. It deploys customized, leading-edge solutions, from premier technology vendors, such as Hewlett-Packard, Cisco, Microsoft and VMWare. These solutions include hardware, software, and professional services, backed by comprehensive engineering expertise and best-in-class products, to help customers address their most complex IT infrastructure needs.

Sigma

Sigma is based in San Antonio, Texas, and specializes in IT Advanced Infrastructure solutions while advising, implementing and maintaining enterprise data centers, centered on private cloud, mobility and managed services. Sigma was merged into Pivot Technology Services Corporation effective December 31, 2019.

TeraMach

TeraMach is a technology solution provider with offices in Ottawa and Toronto. TeraMach provides technical solutions, services, staffing and cloud expertise to the Canadian federal and provincial governments, the Canadian public sector and commercial enterprises.

Shared Services

The Shared Services segment consists of the Company's head office activities, including strategic leadership, finance, human resources, marketing and information systems.

Revenue and profit by segment

Year ended December 31, 2019	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Revenue	**328,587**	**12,680**	**572,338**	**208,991**	**95,516**	**12**	**1,218,124**
Cost of sales	**286,994**	**11,292**	**502,082**	**171,447**	**80,655**	**1,624**	**1,054,094**
Gross profit	**41,593**	**1,388**	**70,256**	**37,544**	**14,861**	**(1,612)**	**164,030**
Selling, general and administrative expenses	**25,999**	**541**	**43,541**	**21,076**	**8,990**	**37,079**	**137,226**
Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expense (income)	**15,594**	**847**	**26,715**	**16,468**	**5,871**	**(38,691)**	**26,804**
Depreciation and amortization							**14,629**
Finance expense							**6,027**
Change in fair value of liabilities							**1,210**
Other income							**(15,746)**
Income before income taxes							**20,684**

Year ended December 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Revenue	410,314	9,207	693,798	184,791	75,514	6	1,373,630
Cost of sales	365,660	8,177	620,728	153,170	63,040	(298)	1,210,477
Gross profit	44,654	1,030	73,070	31,621	12,474	304	163,153
Selling, general and administrative expenses	31,034	507	49,629	21,948	9,141	35,355	147,614
Income (loss) before depreciation and amortization, finance expense change in fair value of liabilities and other expense (income)	13,620	523	23,441	9,673	3,333	(35,051)	15,539
Depreciation and amortization							11,352
Finance expense							6,120
Change in fair value of liabilities							653
Other expense							877
Loss before income taxes							(3,463)

Assets and liabilities by segment

	2019	2018
Assets		
ACS	**109,223**	106,569
ARC	**6,766**	6,698
ProSys	**194,700**	203,186
Sigma	**77,165**	72,192
TeraMach	**15,338**	21,704
Shared Services	**18,206**	10,970
	421,398	421,319
Liabilities		
ACS	**52,112**	58,383
ARC	**10,967**	11,293
ProSys	**169,662**	180,510
Sigma	**76,685**	74,932
TeraMach	**19,190**	22,939
Shared Services	**76,584**	66,014
	405,200	414,071

28. SUBSEQUENT EVENTS

COVID-19

Since December 31, 2019, the outbreak of the recent novel coronavirus (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused disruption to certain businesses globally; as a result, there could be a possibility of recession in the near future. While the impact of COVID-19 on the Company has been minimal to date, there is uncertainty around its duration and future business conditions. If the outbreak were to cause disruption to the Company's supply chain or its service capabilities in the future, it would have a negative impact on revenue, which could be material. In addition, any material negative impact on revenue would impact profitability, as well as liquidity and capital resources.