# Pivot Technology Solutions, Inc.

## Interim Condensed

## Consolidated Financial Statements

*(unaudited)*

## 2020 Q1

Dated: May 12, 2020

## Pivot Technology Solutions, Inc.

### Interim Condensed Consolidated Statements of Financial Position

*(unaudited)*

| *(in thousands of Canadian dollars, except otherwise noted)* | ***notes*** | **March 31, 2020** | December 31, 2019 | January 1, 2019 |
|---|---|---|---|---|
| | | | *(re-presented, note 5)* | *(re-presented, note 5)* |
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | | **15,641** | 35,430 | 20,881 |
| Accounts receivable | | **380,554** | 295,389 | 313,536 |
| Income taxes recoverable | | **7,951** | 4,087 | 3,923 |
| Inventories | | **77,342** | 51,329 | 73,367 |
| Deferred contract costs | | **31,655** | 25,494 | 25,692 |
| Other current assets | | **3,854** | 3,897 | 5,373 |
| **Total current assets** | | **516,997** | 415,626 | 442,772 |
| Property, plant and equipment | *7* | **23,163** | 22,460 | 8,638 |
| Goodwill | *8* | **63,414** | 58,865 | 61,608 |
| Other intangible assets | *9* | **20,124** | 21,684 | 33,656 |
| Deferred tax assets | | **11,628** | 10,639 | 14,054 |
| Deferred contract costs | | **16,626** | 17,413 | 13,115 |
| Other non-current assets | | **636** | 709 | 709 |
| **Total assets** | | **652,588** | 547,396 | 574,552 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current** | | | | |
| Bank indebtedness | | **11,335** | 19,682 | 24,780 |
| Accounts payable and accrued liabilities | *10* | **346,114** | 289,234 | 346,966 |
| Income taxes payable | | **818** | 187 | 865 |
| Deferred revenue and customer deposits | | **9,731** | 9,048 | 9,354 |
| Deferred contract revenue | | **35,767** | 29,669 | 28,586 |
| Other financial liabilities | *11* | **195,284** | 144,510 | 136,621 |
| **Total current liabilities** | | **599,049** | 492,330 | 547,172 |
| Deferred tax liabilities | | **637** | 500 | 525 |
| Deferred contract revenue | | **17,622** | 18,525 | 14,069 |
| Other financial liabilities | *11* | **15,553** | 14,999 | 1,606 |
| Other non-current liabilities | | **–** | – | 1,297 |
| **Total liabilities** | | **632,861** | 526,354 | 564,669 |
| **Shareholders' equity** | | | | |
| Share capital | *13* | **80,945** | 83,176 | 83,550 |
| Contributed surplus | | **6,883** | 6,562 | 6,062 |
| Foreign exchange translation reserve | | **9,379** | 8,212 | 9,052 |
| Accumulated deficit | | **(80,988)** | (80,229) | (92,432) |
| **Equity attributable to shareholders** | | **16,219** | 17,721 | 6,232 |
| Non-controlling interest | | **3,508** | 3,321 | 3,651 |
| **Total shareholders' equity** | | **19,727** | 21,042 | 9,883 |
| **Total liabilities and shareholders' equity** | | **652,588** | 547,396 | 574,552 |

*See accompanying notes to consolidated financial statements.*

*Contingencies (note 11).*

## Pivot Technology Solutions, Inc.

### Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

*(unaudited)*

| | | Three months ended March 31, | |
|---|---|---|---|
| *(in thousands of Canadian dollars, except per share amounts)* | ***notes*** | **2020** | 2019 |
| | | | *(re-presented, note 5)* |
| Revenue | *14* | **376,807** | 389,861 |
| Cost of sales | *15* | **324,717** | 341,170 |
| **Gross profit** | | **52,090** | 48,691 |
| Selling, general and administrative expenses | *15* | **46,699** | 44,251 |
| **Income before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses** | | **5,391** | 4,440 |
| Depreciation and amortization | | **4,691** | 4,995 |
| Finance expense | *16* | **1,744** | 2,216 |
| Change in fair value of liabilities | *17* | **9** | 308 |
| Other expenses | *18* | **447** | 4,145 |
| **Loss before income taxes** | | **(1,500)** | (7,224) |
| Income tax recovery | *19* | **(2,484)** | (1,907) |
| **Net income (loss) for the period** | | **984** | (5,317) |
| **Other comprehensive income (loss)** | | | |
| Items that may be reclassified subsequently to income (loss): | | | |
| Exchange gain (loss) on translation of foreign operations | | **1,167** | (313) |
| **Total comprehensive income (loss)** | | **2,151** | (5,630) |
| **Attributable to:** | | | |
| Shareholders | | **1,964** | (5,076) |
| Non-controlling interest | | **187** | (554) |
| **Total comprehensive income (loss)** | | **2,151** | (5,630) |
| **Attributable to shareholders:** | | | |
| Earnings (loss) attributable to shareholders | *13* | **797** | (4,763) |
| Earnings (loss) per common share | | | |
| Basic ($) | *13* | **$0.02** | ($0.12) |
| Diluted ($) | *13* | **$0.02** | ($0.12) |

*See accompanying notes to consolidated financial statements.*

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

## Pivot Technology Solutions, Inc.

### Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

*(unaudited)*

| *(in thousands of Canadian dollars)* | **Share capital** | **Contributed surplus** | **Non-controlling interest** | **Foreign currency translation reserve** | **Accumulated deficit** | **Total** |
|---|---|---|---|---|---|---|
| | *(all amounts in 2019 and January 1, 2020 are re-presented, note 5)* | | | | | |
| Balance, January 1, 2019 | 83,550 | 6,062 | 3,651 | 9,052 | (92,432) | 9,883 |
| Shared-based compensation | – | 166 | – | – | – | 166 |
| Dividends declared *(note 13)* | – | – | – | – | (1,579) | (1,579) |
| Loss on translation of foreign operations | – | – | – | (313) | – | (313) |
| Net loss for the period | – | – | (554) | – | (4,763) | (5,317) |
| Balance, March 31, 2019 | 83,550 | 6,228 | 3,097 | 8,739 | (98,774) | 2,840 |
| Balance, January 1, 2020 | 83,176 | 6,562 | 3,321 | 8,212 | (80,229) | 21,042 |
| Shared-based compensation | **–** | **143** | **–** | **–** | **–** | **143** |
| Purchase of shares for cancellation | **(2,313)** | **202** | **–** | **–** | **–** | **(2,111)** |
| Stock options exercised | **82** | **(24)** | **–** | **–** | **–** | **58** |
| Dividends declared *(note 13)* | **–** | **–** | **–** | **–** | **(1,556)** | **(1,556)** |
| Gain on translation of foreign operations | **–** | **–** | **–** | **1,167** | **–** | **1,167** |
| Net income for the period | **–** | **–** | **187** | **–** | **797** | **984** |
| **Balance, March 31, 2020** | **80,945** | **6,883** | **3,508** | **9,379** | **(80,988)** | **19,727** |

*See accompanying notes to consolidated financial statements.*

## Pivot Technology Solutions, Inc.

### Interim Condensed Consolidated Statements of Cash Flows

*(unaudited)*

| | | Three months ended March 31, | |
|---|---|---|---|
| *(in thousands of Canadian dollars)* | ***notes*** | **2020** | 2019 |
| | | | *(re-presented, note 5)* |
| **OPERATING ACTIVITIES** | | | |
| Net income (loss) for the period | | **984** | (5,317) |
| Add (deduct) items not involving cash | | | |
| Depreciation and amortization | | **4,691** | 4,994 |
| Share-based compensation | *12* | **143** | 166 |
| Change in provision for accounts receivable | | **17** | – |
| Deferred income taxes | | **(15)** | 21 |
| Amortization of loan fees | *11* | **(81)** | 108 |
| Change in fair value of liabilities | *17* | **9** | 308 |
| Changes in non-cash working capital | *20* | **(50,317)** | (47,260) |
| **Cash used in operating activities** | | **(44,569)** | (46,980) |
| **INVESTING ACTIVITIES** | | | |
| Payments made on contingent consideration | | **(134)** | (332) |
| Capital expenditures | | **(1,134)** | (221) |
| Other intangible assets | | **(5)** | (919) |
| Other investing activities | | **48** | 44 |
| **Cash used in investing activities** | | **(1,225)** | (1,428) |
| **FINANCING ACTIVITIES** | | | |
| Net change in debt facilities | | **37,823** | 39,984 |
| Net change in flooring arrangements | | **(20)** | 1,424 |
| Net change in bank indebtedness | | **(9,537)** | (3,377) |
| Payment of lease liabilities | | **(1,197)** | (1,432) |
| Dividends paid | | **(1,556)** | (1,579) |
| Purchase of shares for cancellation | | **(2,111)** | – |
| Stock options exercised | | **58** | – |
| Other financing activities | | **95** | (1,307) |
| **Cash provided by financing activities** | | **23,555** | 33,713 |
| **Net decrease in cash during the period** | | **(22,239)** | (14,695) |
| Cash and cash equivalents, beginning of period | | **35,430** | 20,881 |
| Foreign exchange gain (loss) on cash held in foreign currency | | **2,450** | (69) |
| **Cash and cash equivalents, end of period** | | **15,641** | 6,117 |

*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 interim condensed consolidated financial statements as the “Company” or “Pivot”.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IAS”) 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”), and were approved by the board of directors of Pivot (the “Board”) on May 12, 2020.

The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Pivot’s 2019 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). Certain comparative information has been reclassified to conform to the current year presentation.

### b) Basis of Presentation

The interim condensed 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.

Prior to 2020, Pivot’s consolidated financial statements were expressed in United States (U.S.) dollars (USD). Commencing 2020, the consolidated financial statements are expressed in Canadian dollars (CAD), as further described in *note 5*. The USD remains to be the parent company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in these interim condensed consolidated financial statements are consistent with those applied in the Company’s audited consolidated financial statements as at and for the year ended December 31, 2019, except as described below, and the impact of this change is identified in *note 5*.

**New Accounting Policy – Presentation Currency**

The functional currency of each entity in the consolidated group is U.S. dollars, with the exception of TeraMach, one of the Company's subsidiaries in Canada. The functional currency of TeraMach is Canadian dollars.

***Functional and presentation currency***

Items included in the financial statements of each entity within the Company are measured using the functional currency, which is the currency of the primary economic environment in which the entity operates. Functional currency is the currency in which revenue and expenses from operating activities are incurred, and financing activities are generated.

The financial statements are presented in Canadian dollars, unless otherwise noted.

The financial statements of the entities that have a functional currency different from the presentation currency of the Company ("foreign operations") are translated into Canadian dollars as follows:

- assets and liabilities of foreign operations are translated at exchange rates at the reporting date;
- revenue and expenses of foreign operations are translated at average rates for the period;
- shareholders' equity are translated at the exchange rate at the date of the transaction using historical foreign exchange rates in effect on the date the transactions occurred; and
- 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.

***Transactions***

Foreign currency transactions are translated into an entity's functional currency at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in net income (loss), reflected as part of other expenses (income).

## 4. CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Company's interim condensed 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 interim condensed 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 it 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 include the following:

- ***Assessment of impact from global pandemic***

  On March 11, 2020, the World Health Organization declared a global pandemic related to coronavirus ("COVID-19") resulting in continued and uncertain economic and business impact on a global scale. As a result, the Company has reviewed its estimates, judgments and assumptions used in the preparation of its interim condensed consolidated financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill and the credit risk of its counterparties.

  Based on this analysis, the Company has determined that no significant revisions to estimates, judgments or assumptions were required; however, the continuing uncertainty associated with the COVID-19 pandemic may require changes in future periods. Any such changes to estimates, judgements or assumptions could have a material impact on the Company's financial position and results of operations.

  To date, the current conditions related to COVID-19 has not had a material impact on the Company's business; however, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. Management continues to monitor and evaluate the situation and its impact on the Company's business.

- ***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 cash generating unit ("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 for the key assumptions utilized to determine the recoverable amounts for the different CGUs.

- ***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. CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICIES ADOPTED

***Change in presentation currency***

Prior to January 1, 2020, the Company reported its annual and quarterly consolidated statements of financial position and the related consolidated statements of income (loss) and cash flows in USD. Effective January 1, 2020, the Board elected to change the Company's presentation currency from USD to CAD. The change in presentation currency is to improve investors' ability to compare the Company's financial results with other Canadian publicly traded businesses.

The Company has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. The consolidated financial results for all periods presented in the interim condensed financial statements are in CAD. USD continues to be the parent company's functional currency. The financial statements of entities with CAD as their functional currency have been carried forward into the consolidated results. The financial statements of the parent company and the entities with a functional currency other than CAD have been translated into CAD as follows:

- assets and liabilities presented and previously reported in USD have been translated into CAD using period end exchange rates of 1.4062 (March 31, 2020), 1.2990 (December 31, 2019) and 1.3637 (January 1, 2019);
- consolidated statements of income and other comprehensive income have been translated using the average foreign exchange rates of 1.3449 and 1.3295 (three months ended March 31, 2020 and 2019, respectively);

- shareholders' equity has been translated using historical foreign exchange rates in effect on the date the transactions occurred; and
- resulting exchange differences have been recorded within the foreign currency translation reserve.

*Impacts on financial statements*

The impacts of the changes in presentation currency on the consolidated financial statements are indicated below.

Condensed consolidated statements of financial position:

| | As at December 31, 2019 | | As at January 1, 2019 | |
|---|---|---|---|---|
| | Reported | Re-presented | Reported | Re-presented |
| *(in thousands)* | USD | CAD | USD | CAD |
| **ASSETS** | | | | |
| Current | 319,958 | 415,626 | 324,685 | 442,772 |
| Non-current | 101,440 | 131,770 | 96,634 | 131,780 |
| Total assets | 421,398 | 547,396 | 421,319 | 574,552 |
| **LIABILITIES AND SHARHOLDERS' EQUITY** | | | | |
| Current | 379,007 | 492,330 | 401,240 | 547,172 |
| Non-current | 26,193 | 34,024 | 12,831 | 17,497 |
| Total liabilities | 405,200 | 526,354 | 414,071 | 564,669 |
| **Shareholders' equity** | | | | |
| Share capital | 82,414 | 83,176 | 82,705 | 83,550 |
| Contributed surplus | 5,010 | 6,562 | 4,631 | 6,062 |
| Foreign exchange translation reserve | (27) | 8,212 | 53 | 9,052 |
| Accumulated deficit | (73,915) | (80,229) | (83,106) | (92,432) |
| **Equity attributable to shareholders** | 13,482 | 17,721 | 4,283 | 6,232 |
| Non-controlling interest | 2,716 | 3,321 | 2,965 | 3,651 |
| **Total shareholders' equity** | 16,198 | 21,042 | 7,248 | 9,883 |
| **Total liabilities and shareholders' equity** | 421,398 | 547,396 | 421,319 | 574,552 |

## Interim condensed consolidated statements of loss and comprehensive loss:

| | Three months ended March 31, 2019 | |
|---|---|---|
| | Reported | Re-presented |
| *(in thousands except per share amounts)* | USD | CAD |
| Revenue | 293,239 | 389,861 |
| Cost of sales | 256,615 | 341,170 |
| **Gross profit** | 36,624 | 48,691 |
| Selling, general and administrative expenses | 33,284 | 44,251 |
| Income before depreciation and amortization, finance expense, change in fair value of liabilities and other expense | 3,340 | 4,440 |
| Depreciation and amortization, finance expense, and change in fair value of liabilities | 5,656 | 7,519 |
| Other expenses | 3,118 | 4,145 |
| Income tax recovery | (1,434) | (1,907) |
| **Net loss** | (4,000) | (5,317) |
| **Other comprehensive income (loss)** | | |
| Items that may be reclassified subsequently to income (loss): | | |
| Exchange loss on translation of foreign operations | (45) | (313) |
| **Total comprehensive loss** | (4,045) | (5,630) |
| **Attributable to:** | | |
| Shareholder | (3,628) | (5,076) |
| Non-controlling interest | (417) | (554) |
| **Total comprehensive loss** | (4,045) | (5,630) |
| **Attributable to shareholders:** | | |
| Loss attributable to shareholders | (3,583) | (4,763) |
| Loss per common share | | |
| Basic ($) | ($0.09) | ($0.12) |
| Diluted ($) | ($0.09) | ($0.12) |

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

## Interim condensed consolidated statements of cash flow:

| | Three months ended March 31, 2019 | |
|---|---|---|
| | Reported | Re-presented |
| *(in thousands)* | USD | CAD |
| Cash used in operating activities | (35,336) | (46,980) |
| Cash used in investing activities | (1,074) | (1,428) |
| Cash provided by financing activities | 25,681 | 33,713 |
| Net decrease in cash during the period | (10,729) | (14,695) |
| Cash and cash equivalents, beginning of period | 15,312 | 20,881 |
| Foreign exchange gain on cash held in foreign currency | (1) | (69) |
| **Cash and cash equivalents, end of period** | 4,582 | 6,117 |

***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. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed 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. Effective January 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its interim condensed consolidated financial statements.

## 6. FUTURE CHANGES IN ACCOUNTING POLICIES

***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 that 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. PROPERTY, PLANT AND EQUIPMENT

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Cost** | | |
| Balance, beginning of period | **36,862** | 39,378 |
| Additions | **1,134** | 1,279 |
| Disposals | **(163)** | (435) |
| Write-off of fully depreciated assets | **(7,901)** | – |
| Reclassifications | **–** | (3,653) |
| Foreign currency translation | **2,267** | 293 |
| Balance, beginning of period | **32,199** | 36,862 |
| **Accumulated depreciation** | | |
| Balance, beginning of period | **14,402** | 9,758 |
| Depreciation | **2,011** | 7,890 |
| Disposals | **(163)** | (3,147) |
| Write-off of fully depreciated assets | **(7,901)** | – |
| Reclassifications | **(299)** | (161) |
| Foreign currency translation | **986** | 62 |
| Balance, end of period | **9,036** | 14,402 |
| **Carrying amount, end of period** | **23,163** | 22,460 |

Property, plant and equipment includes right-of-use (“ROU”) assets, which represent office and warehouse space.

## 8. GOODWILL

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Balance, beginning of period | **58,865** | 58,685 |
| Foreign currency translation | **4,549** | 180 |
| Balance, end of period | **63,414** | 58,865 |

## 9. OTHER INTANGIBLE ASSETS

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Cost** | | |
| Balance, beginning of period | **120,843** | 120,165 |
| Additions | **5** | 4,427 |
| Disposals | **–** | (3,973) |
| Foreign currency translation | **9,578** | 224 |
| Balance, beginning of period | **130,426** | 120,843 |
| **Accumulated amortization** | | |
| Balance, beginning of period | **99,159** | 88,106 |
| Amortization | **2,680** | 11,521 |
| Disposals | **–** | (310) |
| Reclassifications | **299** | – |
| Foreign currency translation | **8,164** | (158) |
| Balance, end of period | **110,302** | 99,159 |
| Carrying amount, end of period | **20,124** | 21,684 |

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Accounts payable | **290,036** | 243,092 |
| Accrued liabilities | **56,078** | 46,142 |
| | **346,114** | 289,234 |

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 US$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 $0.9 million (US$0.6 million) and $0.9 million (US$0.7 million) as at March 31, 2020 and December 31, 2019, respectively.

## 11. OTHER FINANCIAL LIABILITIES

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| **Current** | | |
| Secured borrowings | **188,427** | 138,651 |
| Contingent consideration | **2,132** | 2,250 |
| Cash-settled share-based compensation | **824** | 761 |
| Lease obligations | **4,681** | 4,283 |
| Automatic share repurchase plan *(note 13)* | **736** | – |
| | **196,800** | 145,945 |
| Deferred loan costs | **(1,516)** | (1,435) |
| | **195,284** | 144,510 |
| **Non-current** | | |
| Cash-settled share-based compensation | **567** | 513 |
| Lease obligations | **14,986** | 14,486 |
| | **15,553** | 14,999 |
| | **210,837** | 159,509 |

### Secured Borrowings

The Company has a credit facility from a lending group represented by JPMorgan Chase Bank, N.A. (“JPMC”), which provides the Company a US$225.0 million senior secured asset based revolving credit facility (“JPMC Credit Facility”). The JPMC Credit Facility 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 US$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 March 31, 2020 and December 31, 2019.

Amounts owing under the Company’s revolving credit facility were $188.4 million (US$134.0 million) and $138.7 million (US$106.7 million) as at March 31, 2020 and December 31, 2019, respectively. Average undrawn availability on the existing, secured credit facility was $71.1 million (US$50.5 million) and $84.8 million (US$65.3 million) million for the periods ended March 31, 2020 and December 31, 2019, respectively.

## Contingent Consideration

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **TeraMach** | **Cloudscapes** | **Total** | TeraMach | Cloudscapes | Total |
| Balance, beginning of period | **2,000** | **250** | **2,250** | 2,896 | 824 | 3,720 |
| Change in fair value *(note 17)* | **–** | **9** | **9** | 1,464 | 142 | 1,606 |
| Payments | **–** | **(134)** | **(134)** | (2,499) | (730) | (3,229) |
| Foreign currency translation | **–** | **7** | **7** | 139 | 14 | 153 |
| **Balance, end of period** | **2,000** | **132** | **2,132** | 2,000 | 250 | 2,250 |

The contingent consideration is related to the obligations for contingent consideration in connection with the acquisitions of TeraMach in 2016 and Cloudscapes in 2017.

The payments of the TeraMach contingent consideration 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. The undiscounted value of $2.0 million will be paid by the end of May 2020.

The payments of the Cloudscapes contingent consideration are based on the achievement of certain gross margin targets. The Company was obligated to pay up to US$0.1 million per quarter for 11 quarters and a bonus of US$0.2 million, which commenced on October 1, 2017 and ending on April 30, 2020.

## Lease Obligations

The following table presents the contractual undiscounted cash flows for lease obligations as at March 31, 2020:

| | |
|---|---|
| One year | 6,109 |
| One to two years | 5,709 |
| Two to five years | 7,572 |
| Over five years | 2,763 |
| **Total undiscounted lease obligations** | **22,153** |

Lease obligations outstanding as at March 31, 2020 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 was $1.7 million and $6.7 million for the three months ended March 31, 2020 and the year ended December 31, 2019, respectively. Variable lease payments were $0.4 million and $1.1 million for the three months ended March 31, 2020 and the year ended December 31, 2019, respectively. Expenses for short-term leases and leases of low-dollar value items are not material. All extension options have been considered in the measurement of lease obligations.

## 12. SHARE-BASED COMPENSATION

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

| | **Three months ended March 31, 2020** | 2019 |
|---|---|---|
| Share-based compensation on options | **19** | 44 |
| Share-based compensation on RSUs | **124** | 122 |
| Total share-based compensation expense | **143** | 166 |

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

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Other financial liabilities (current) – stock options | **824** | 761 |
| Other financial liabilities (non-current) – stock options | **567** | 513 |
| Contributed surplus – stock options | **1,542** | 1,547 |
| Contributed surplus – RSUs | **354** | 230 |

### 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 10 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:

| | **Three months ended March 31, 2020** | | Year ended December 31, 2019 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Options outstanding, beginning of period | **2,121,250** | **$1.77** | 2,118,750 | $1.79 |
| Options granted | **–** | – | 195,000 | $1.54 |
| Options forfeited | **(20,000)** | **$1.94** | (130,000) | $1.79 |
| Options expired | **–** | – | (62,500) | $1.65 |
| Options exercised | **(36,100)** | **$1.60** | – | – |
| Options outstanding, end of period | **2,065,150** | **$1.77** | 2,121,250 | $1.77 |
| Options exercisable, end of period | **1,440,149** | **$1.77** | 1,476,249 | $1.76 |

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. There were no options granted during the three months ended March 31, 2020.

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Expected volatility | – | 47.60% |
| Rick-free interest rate | – | 1.51% |
| Dividend yield | – | 10.39% |
| Forfeiture rate | – | 5.50% |
| Expected life | – | 3.4 years |

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

| | | | **March 31, 2020** |
|---|---|---|---|
| **Exercisable price** | **Number of options outstanding** | **Weighted average remaining contractual life** | **Number of options exercisable** |
| **1.54** | **195,000** | **4.6 years** | **–** |
| **1.60** | **1,020,150** | **6.2 years** | **1,020,150** |
| **1.68** | **466,666** | **3.4 years** | **159,998** |
| **2.47** | **373,334** | **2.5 years** | **253,334** |
| **2.61** | **10,000** | **2.4 years** | **6,667** |
| | **2,065,150** | | **1,440,149** |

| | | | December 31, 2019 |
|---|---|---|---|
| Exercisable price | 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 |

## 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:

| | **Three months ended March 31, 2020** | | Year ended December 31, 2019 | |
|---|---|---|---|---|
| | **Number of units** | **Weighted average grant date fair value** | Number of units | Weighted average grant date fair value |
| Units outstanding, beginning of period | **558,847** | **$1.88** | 697,538 | $1.91 |
| Units granted | **–** | **–** | 75,000 | $1.54 |
| Units reinvested – dividends | **12,890** | **$1.87** | 73,843 | $1.94 |
| Units released | **–** | **–** | (248,334) | $2.02 |
| Units forfeited | **(41,908)** | **$1.99** | (39,200) | $1.99 |
| Units outstanding, end of period | **529,829** | **$1.87** | 558,847 | $1.88 |

As at March 31, 2020 and December 31, 2019, there was $0.6 million and $0.9 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 1.5 years.

**Smart Edge Phantom Stock**

In February 2019, Smart Edge, one of Pivot's subsidiaries, 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 $0.6 million (US$0.5 million), reflected as part of other financial liabilities. As a result of the sale of assets in Smart Edge, in October 2019, $0.5 million (US$0.4 million) vested immediately and was settled in cash during the first quarter of 2020, with the remainder $0.1 million (US$0.1 million) to be paid out by April 2021.

## 13. SHARE CAPITAL

The issued share capital amounted to $80.9 million and $83.2 million (US$82.4 million) as at March 31, 2020 and December 31, 2019, 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 three months ended March 31, 2020 and the year ended December 31, 2019 were as follows:

| *(number of common shares)* | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|
| Balance, beginning of period | **39,414,066** | 39,473,032 |
| Stock options exercised | **36,100** | – |
| Share repurchases and subsequent cancellations | **(824,115)** | (237,310) |
| Shares issued in vesting RSUs | **9** | 178,344 |
| Balance, end of period | **38,626,060** | 39,414,066 |

No preferred shares were issued or outstanding as at March 31, 2020 and December 31, 2019.

### 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 (ASPP) 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. The amount deposited at Echelon in connection with the ASPP is reflected as current other financial liabilities, and a reduction to contributed surplus *(note 11)*.

As at March 31, 2020, the Company has purchased and cancelled 1,061,425 common shares under its current NCIB.

### 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 when they are anti-dilutive.

| | **Three months ended March 31,** | |
|---|---|---|
| | **2020** | 2019 |
| **Earnings (loss) attributed to shareholders** | **797** | (4,763) |
| | | |
| **Weighted average number shares outstanding** *(number of shares)* | | |
| Basic | **39,637,084** | 39,473,032 |
| Dilutive effect of stock options[(1)] | **27,377** | – |
| Dilutive effect of RSUs | **529,829** | – |
| Diluted | **40,194,290** | 39,473,032 |
| | | |
| **Earnings (loss) per share** *(in dollars)* | | |
| Basic | **$0.02** | **($0.12)** |
| Diluted | **$0.02** | **($0.12)** |

*[(1)]The calculation of diluted weighted average number of shares excludes 0.9 million and 2.1 million stock options for the three months ended March 31, 2020 and 2019, respectively, 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 has declared a dividend of $0.04 every quarter for the past few years, including each of the three months ended March 31, 2020 and 2019. Total dividends paid were $1.6 million for the three months ended March 31, 2020 and $6.3 million for the year ended December 31, 2019.

Subsequent to March 31, 2020, the Board declared a quarterly dividend of $0.04 per common share, payable on June 15, 2020 to shareholders of record on May 29, 2020.

## 14. REVENUE

### Types of goods and services:

Revenue from the U.S. and Canada presented below includes revenue from international locations.

| | | | | **Three months ended March 31, 2020** |
|---|---|---|---|---|
| | **U.S.** | **Canada** | **Shared Services** | **Total** |
| Product sales | **285,018** | **42,515** | **3** | **327,536** |
| Pivot provided services | **25,169** | **3,569** | **–** | **28,738** |
| Third-party services | **18,232** | **2,301** | **–** | **20,533** |
| **Total revenue** | **328,419** | **48,385** | **3** | **376,807** |

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

| | | | | Three months ended March 31, 2019 |
|---|---|---|---|---|
| | U.S. | Canada | Shared Services | Total |
| Product sales | 285,840 | 61,658 | 3 | 347,501 |
| Pivot provided services | 21,154 | 2,819 | 3 | 23,976 |
| Third-party services | 16,487 | 1,897 | – | 18,384 |
| Total revenue | 323,481 | 66,374 | 6 | 389,861 |

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

## Geographical markets:

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| United States | **306,557** | 314,456 |
| Canada | **48,546** | 66,597 |
| International | **21,704** | 8,808 |
| **Total revenue** | **376,807** | 389,861 |

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

## Timing of revenue recognition:

| | | | | Three months ended March 31, 2020 |
|---|---|---|---|---|
| | **U.S.** | **Canada** | **Shared Services** | **Total** |
| Goods transferred at a point in time | **285,018** | **42,515** | **3** | **327,536** |
| Services transferred at a point in time | **30,102** | **4,570** | **–** | **34,672** |
| Services transferred over time | **13,298** | **1,301** | **–** | **14,599** |
| **Total revenue** | **328,418** | **48,386** | **3** | **376,807** |

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

| | | | | Three months ended March 31, 2019 |
|---|---|---|---|---|
| | U.S. | Canada | Shared Services | Total |
| Goods transferred at a point in time | 285,840 | 61,658 | 3 | 347,501 |
| Services transferred at a point in time | 21,490 | 2,865 | 3 | 24,358 |
| Services transferred over time | 16,151 | 1,851 | – | 18,002 |
| Total revenue | 323,481 | 66,374 | 6 | 389,861 |

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

## 15. EMPLOYEE COMPENSATION AND BENEFITS

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Employee compensation and benefits | **7,081** | 9,252 |
| Other cost of sales | **317,636** | 331,918 |
| Cost of sales | **324,717** | 341,170 |

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Employee compensation and benefits | **37,977** | 36,488 |
| Other selling, general and administrative expenses | **8,722** | 7,763 |
| Selling, general and administrative expenses | **46,699** | 44,251 |

## 16. FINANCE EXPENSE

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Interest expenses, net | **1,393** | 1,761 |
| Accretion expense | **351** | 455 |
| | **1,744** | 2,216 |

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.

## 17. CHANGE IN FAIR VALUE OF LIABILITIES

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Contingent consideration | **9** | 308 |

### 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 11)*.

## 18. OTHER EXPENSES

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Restructuring costs | **4,179** | 3,057 |
| Transaction costs | **941** | 258 |
| Foreign exchange loss (gain) | **(4,781)** | 856 |
| Other | **108** | (26) |
| | **447** | 4,145 |

Restructuring costs incurred in Q1 2020 related to the merger of the wholly owned U.S. subsidiaries. The restructuring costs in Q1 2019 were in connection with the commercial transformation and cost reduction initiatives.

The foreign exchange gain for the three months ended March 31, 2020 resulted from the strengthening of the U.S. dollar in 2020.

## 19. INCOME TAXES

Significant components of the income tax recovery are as follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Current tax recovery | **(2,194)** | (1,901) |
| Deferred tax recovery | **(290)** | (6) |
| | **(2,484)** | (1,907) |

## 20. CHANGES IN NON-CASH WORKING CAPITAL

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

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Accounts receivable | **(58,156)** | (38,786) |
| Income taxes recoverable | **(2,784)** | (2,636) |
| Inventories | **(20,828)** | 9,509 |
| Other assets | **(1,326)** | (5,664) |
| Accounts payable and accrued liabilities | **31,592** | (14,799) |
| Other liabilities | **1,185** | 5,116 |
| | **(50,317)** | (47,260) |

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

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| Interest paid | **1,393** | 1,700 |
| Income taxes paid | **94** | 651 |

## 21. FINANCIAL INSTRUMENTS

### Classification of Financial and Non-Financial Assets and Liabilities and Fair Values

| As at March 31, 2020 | FVTPL | Amortized cost | Non-financial | Total carrying amount | Fair value hierarchy |
|---|---|---|---|---|---|
| Cash and cash equivalents | – | 15,641 | – | 15,641 | |
| Accounts receivable | – | 380,554 | – | 380,554 | |
| Inventories | – | – | 77,342 | 77,342 | |
| Other intangible assets | – | – | 20,124 | 20,124 | |
| Goodwill | – | – | 63,414 | 63,414 | |
| Deferred contract costs | – | – | 48,281 | 48,281 | |
| Other non-financial assets | – | – | 47,232 | 47,232 | |
| **Total assets** | – | 396,195 | 256,393 | 652,588 | |
| Bank indebtedness | – | 11,335 | – | 11,335 | |
| Accounts payable and accrued liabilities | – | 346,114 | – | 346,114 | |
| Deferred contract revenue | – | – | 53,389 | 53,389 | |
| Contingent consideration(1) | 2,132 | – | – | 2,132 | Level 3 |
| Cash-settled share-based compensation(1) | 1,391 | – | – | 1,391 | Level 3 |
| Other financial liabilities(2) | – | 207,314 | – | 207,314 | |
| Other non-financial liabilities | – | – | 11,186 | 11,186 | |
| **Total liabilities** | 3,523 | 564,763 | 64,575 | 632,861 | |

*(1) Included in other financial liabilities*

*(2) Excluded contingent consideration and cash-settled share-based compensation presented separately above*

| As at December 31, 2019 | FVTPL | Amortized cost | Non-financial | Total carrying amount | Fair value hierarchy |
|---|---|---|---|---|---|
| Cash and cash equivalents | – | 35,430 | – | 35,430 | |
| Accounts receivable | – | 295,389 | – | 295,389 | |
| Inventories | – | – | 51,329 | 51,329 | |
| Other intangible assets | – | – | 21,684 | 21,684 | |
| Goodwill | – | – | 58,865 | 58,865 | |
| Deferred contract costs | – | – | 42,907 | 42,907 | |
| Other non-financial assets | – | – | 41,792 | 41,792 | |
| Total assets | – | 330,819 | 216,577 | 547,396 | |
| | | | | | |
| Bank indebtedness | – | 19,682 | – | 19,682 | |
| Accounts payable and accrued liabilities | – | 289,234 | – | 289,234 | |
| Deferred contract revenue | – | – | 48,194 | 48,194 | |
| Contingent consideration(1) | 2,250 | – | – | 2,250 | Level 3 |
| Cash-settled share-based compensation(1) | 1,274 | – | – | 1,274 | Level 3 |
| Other financial liabilities(2) | – | 155,985 | – | 155,985 | |
| Other non-financial liabilities | – | – | 9,735 | 9,735 | |
| Total liabilities | 3,524 | 464,901 | 57,929 | 526,354 | |

*(1) Included in other financial liabilities*

*(2) Excluded contingent consideration and cash-settled share-based compensation presented separately above*

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. Amounts as at December 31, 2019 were adjusted to reflect the payments to be paid during 2020. The Company recorded a charge of $0.2 million and $0.3 million related to the change in fair value of the contingent consideration for the three months ended March 31, 2020 and 2019, 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 three months ended March 31, 2020 and the year ended December 31, 2019.

## 22. RELATED PARTY TRANSACTIONS

The Company has certain contractual arrangements with ProSys Information Systems Inc. (“ProSys”) and Applied Computer Solutions Inc. (“Applied”), whose activities and results are consolidated with the Company. Under IFRS guidelines, the Company is deemed to have primary exposure for the significant risks and rewards associated with sales by ProSys and Applied to its third-party customers.

These contractual arrangements accounted in aggregate for 28.6% and 37.2% of the Company’s total revenue for the three months ended March 31, 2020 and 2019, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

## 23. SEGMENT INFORMATION

### Segments

The Company’s business activities are conducted through three reportable segments: U.S., Canada and Shared Services.

***U.S.***

Commencing 2020, with the integration efforts executed by the Company, the consolidation of operations has resulted in a single operating and reporting segment in connection with the U.S. business.

Operations in the U.S. provide IT solutions, IT infrastructure solutions and system integration services to enterprise, public sector and educational customers, and deploy customized leading-edge solutions from premier technology vendors. These solutions include hardware, software, and professional services.

***Canada***

Operations in Canada provide technical solutions, services, staffing and cloud expertise to the Canadian federal and provincial governments, the Canadian public sector and commercial enterprises, reflecting different economic market and characteristics, competitive pressures, regulatory environments and customer profiles compared with those factors in the U.S.

***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

| **Three months ended March 31, 2020** | **U.S.** | **Canada** | **Shared Services** | **Total** |
|---|---|---|---|---|
| **Revenue** | **328,418** | **48,385** | **4** | **376,807** |
| Cost of sales | **285,310** | **39,083** | **324** | **324,717** |
| **Gross profit** | **43,108** | **9,302** | **(320)** | **52,090** |
| Selling, general and administrative expenses | **40,424** | **3,397** | **2,878** | **46,699** |
| Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses | **2,684** | **5,905** | **(3,198)** | **5,391** |
| Depreciation and amortization | | | | **4,691** |
| Finance expense | | | | **1,744** |
| Change in fair value of liabilities | | | | **9** |
| Other expenses | | | | **447** |
| **Loss before income taxes** | | | | **(1,500)** |

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

| Three months ended March 31, 2019 | U.S. | Canada | Shared Services | Total |
|---|---|---|---|---|
| Revenue | 323,482 | 66,374 | 5 | 389,861 |
| Cost of sales | 283,896 | 56,666 | 608 | 341,170 |
| Gross profit | 39,586 | 9,708 | (603) | 48,691 |
| Selling, general and administrative expenses | 27,882 | 3,402 | 12,967 | 44,251 |
| Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses | 11,704 | 6,306 | (13,570) | 4,440 |
| Depreciation and amortization | | | | 4,995 |
| Finance expense | | | | 2,216 |
| Change in fair value of liabilities | | | | 308 |
| Other expenses | | | | 4,145 |
| Loss before income taxes | | | | (7,224) |

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

## Assets and liabilities by segment

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Assets | | |
| U.S. | **580,607** | 503,822 |
| Canada | **62,979** | 19,924 |
| Shared Services | **9,002** | 23,650 |
| | **652,588** | 547,396 |
| Liabilities | | |
| U.S. | **457,236** | 401,944 |
| Canada | **65,169** | 24,928 |
| Shared Services | **110,456** | 99,482 |
| | **632,861** | 526,354 |