

Interim Condensed Consolidated Financial Statements

**Pivot Technology Solutions, Inc.**

For the Three and Nine Months Ended  
September 30, 2019 and 2018

[Unaudited]

*(Expressed in Thousands of U.S. Dollars)*

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**Pivot Technology Solutions, Inc.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*[Expressed in thousands of U.S. dollars]*

<b>As at</b>	<b>September 30, 2019</b>	December 31, 2018
	<i>[unaudited]</i>	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	9,415	15,312
Accounts receivable	232,498	229,916
Income taxes recoverable	2,646	2,877
Inventories	53,492	53,800
Deferred contract costs	20,162	18,840
Other current assets	4,967	3,940
	<b>323,180</b>	324,685
Assets held for sale (note 5)	3,184	-
<b>Total current assets</b>	<b>326,364</b>	324,685
Property, plant and equipment, net	5,206	6,334
Right-of-use assets, net (note 4)	13,836	-
Goodwill	45,257	45,177
Intangible assets	18,312	24,680
Deferred income taxes (note 11)	10,295	10,306
Deferred contract costs	13,936	9,617
Other non-current assets	576	520
<b>Total assets</b>	<b>433,782</b>	421,319

*See accompanying notes*

*Continued on next page*

**Pivot Technology Solutions, Inc.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*[Expressed in thousands of U.S. dollars]*

As at	September 30, 2019	December 31, 2018
	<i>[unaudited]</i>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank overdraft	14,791	18,171
Accounts payable and accrued liabilities (note 6)	232,903	254,430
Income taxes payable	202	634
Deferred revenue and customer deposits	6,489	6,859
Deferred contract revenue	22,941	20,962
Lease liability	3,663	-
Other financial liabilities (note 7)	122,627	100,184
	<b>403,616</b>	401,240
Liabilities associated with assets held for sale (note 5)	62	-
<b>Total current liabilities</b>	<b>403,678</b>	401,240
Other financial liabilities (note 7)	1,432	1,178
Deferred tax liabilities	385	385
Deferred contract revenue	14,833	10,317
Lease liability	12,137	-
Other non-current liabilities	-	951
<b>Total liabilities</b>	<b>432,465</b>	414,071
<b>Equity</b>		
Share capital (note 8)	82,907	82,705
Contributed surplus	4,716	4,631
Foreign exchange translation reserve	31	53
Accumulated deficit	(88,977)	(83,106)
<b>Equity (deficit) attributable to shareholders</b>	<b>(1,323)</b>	4,283
Non-controlling interest	2,640	2,965
<b>Total equity</b>	<b>1,317</b>	7,248
<b>Total liabilities and equity</b>	<b>433,782</b>	421,319

*See accompanying notes*

**On behalf of the Board:**

*"Lazane Smith"*

**Lazane Smith**

Audit Committee Chair and Director

*"Kevin Shank"*

**Kevin Shank**

President, CEO and Director

**Pivot Technology Solutions, Inc.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

*[Expressed in thousands of U.S. dollars, except per share amounts]*

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue (note 12)	269,623	321,389	910,909	1,071,998
Cost of sales	230,075	280,654	789,780	951,359
<b>Gross profit</b>	<b>39,548</b>	<b>40,735</b>	<b>121,129</b>	<b>120,639</b>
Employee compensation and benefits	27,218	28,527	84,311	86,544
Other selling, general and administrative expenses	6,029	8,043	17,485	23,328
<b>Income before the following:</b>	<b>6,301</b>	<b>4,165</b>	<b>19,333</b>	<b>10,767</b>
Depreciation and amortization	3,683	2,863	11,161	8,573
Finance expense	1,456	1,528	4,631	4,614
Change in fair value of liabilities (note 14)	223	226	663	423
Other expense (note 13)	565	1,801	4,516	1,294
<b>Income (loss) before income taxes</b>	<b>374</b>	<b>(2,253)</b>	<b>(1,638)</b>	<b>(4,137)</b>
Provision for income taxes (note 11)	7	220	976	335
<b>Income (loss) for the period</b>	<b>367</b>	<b>(2,473)</b>	<b>(2,614)</b>	<b>(4,472)</b>
Income (loss) for the period attributable to non-controlling interests	684	335	(325)	591
<b>Loss for the period attributable to shareholders</b>	<b>(317)</b>	<b>(2,808)</b>	<b>(2,289)</b>	<b>(5,063)</b>
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to income				
(loss) for the period:				
Exchange (loss) gain on translation of foreign operations	13	23	(22)	20
	13	23	(22)	20
<b>Total comprehensive income (loss)</b>	<b>380</b>	<b>(2,450)</b>	<b>(2,636)</b>	<b>(4,452)</b>
<b>Total comprehensive loss attributable to shareholders</b>	<b>(304)</b>	<b>(2,785)</b>	<b>(2,311)</b>	<b>(5,043)</b>
<b>Loss per common share (note 8):</b>				
Loss attributable to common shareholders	(317)	(2,808)	(2,289)	(5,063)
Basic	(\$0.01)	(\$0.07)	\$ (0.06)	\$ (0.13)
Diluted	(\$0.01)	(\$0.07)	\$ (0.06)	\$ (0.13)

*See accompanying notes*

**Pivot Technology Solutions, Inc.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

*[Expressed in thousands of U.S. dollars]*

	Common Stock	Contributed Surplus	Non- Controlling Interest	Foreign Exchange Translation Reserve	Accumulated Deficit	Total
<b>Balance, December 31, 2017</b>	<b>84,411</b>	<b>3,847</b>	<b>2,844</b>	<b>37</b>	<b>(73,615)</b>	<b>17,524</b>
Equity classified share-based compensation	-	341	-	-	-	<b>341</b>
Cash settlement of RSUs	-	(56)	-	-	-	<b>(56)</b>
Share repurchases	(2,042)	614	-	-	-	<b>(1,428)</b>
Shares issued in vesting of RSUs	114	(170)	-	-	-	<b>(56)</b>
Options exercised	222	(65)	-	-	-	<b>157</b>
Common share dividends declared (note 8)	-	-	-	-	(3,697)	<b>(3,697)</b>
Gain on translation of foreign operations	-	-	-	20	-	<b>20</b>
Income (loss) for the period	-	-	591	-	(5,063)	<b>(4,472)</b>
<b>Balance, September 30, 2018</b>	<b>82,705</b>	<b>4,511</b>	<b>3,435</b>	<b>57</b>	<b>(82,375)</b>	<b>8,333</b>
<b>Balance, December 31, 2018</b>	<b>82,705</b>	<b>4,631</b>	<b>2,965</b>	<b>53</b>	<b>(83,106)</b>	<b>7,248</b>
Equity classified share-based compensation	-	363	-	-	-	<b>363</b>
Shares issued in vesting of RSUs	202	(278)	-	-	-	<b>(76)</b>
Common share dividends declared (note 8)	-	-	-	-	(3,582)	<b>(3,582)</b>
Loss on translation of foreign operations	-	-	-	(22)	-	<b>(22)</b>
Loss for the period	-	-	(325)	-	(2,289)	<b>(2,614)</b>
<b>Balance, September 30, 2019</b>	<b>82,907</b>	<b>4,716</b>	<b>2,640</b>	<b>31</b>	<b>(88,977)</b>	<b>1,317</b>

*See accompanying notes*

**Pivot Technology Solutions, Inc.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*[Expressed in thousands of U.S. dollars]*

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>				
Income (loss) for the period	367	(2,473)	(2,614)	(4,472)
Add (deduct) items not involving cash				
Depreciation and amortization	3,683	2,863	11,161	8,573
Share-based compensation (note 9)	110	102	722	341
Loss on disposal of property, plant and equipment	9	18	12	44
Provision for (recovery of) receivables	44	175	(69)	189
Deferred income taxes (note 11)	5	(1)	(5)	(116)
Amortization of loan fees (note 7)	56	81	213	243
Change in fair value of liabilities (note 14)	223	226	663	423
Changes in non-cash working capital balances (note 15)	(24,865)	64,027	(24,527)	45,674
<b>Cash provided by (used in) operating activities</b>	<b>(20,368)</b>	<b>65,018</b>	<b>(14,444)</b>	<b>50,899</b>
<b>INVESTING ACTIVITIES</b>				
Payments made on contingent consideration	(100)	(100)	(450)	(300)
Proceeds from sales of property, plant and equipment	-	41	-	41
Capital expenditures	(488)	(347)	(884)	(2,371)
Other intangible assets	(1,115)	(11)	(2,708)	(12)
Lease payments received from finance leases	37	-	102	-
<b>Cash used in investing activities</b>	<b>(1,666)</b>	<b>(417)</b>	<b>(3,940)</b>	<b>(2,642)</b>
<b>FINANCING ACTIVITIES</b>				
Net change in debt facilities	24,412	(55,914)	22,646	(32,066)
Debt issuance costs	(212)	-	(800)	-
Net change in flooring arrangements	711	(104)	694	(468)
Net change in bank overdraft	(6,302)	(3,732)	(3,380)	(8,472)
Payment of lease liabilities	(941)	-	(3,008)	-
Stock options exercised	-	-	-	157
Cash settlement of RSUs	-	-	-	(56)
Shares repurchased for tax withholdings on vesting of RSUs	(76)	(56)	(76)	(56)
Common share dividends paid	(1,207)	(1,207)	(3,582)	(3,697)
Common share repurchases	-	(465)	-	(1,428)
<b>Cash provided by (used in) financing activities</b>	<b>16,385</b>	<b>(61,478)</b>	<b>12,494</b>	<b>(46,086)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(5,649)</b>	<b>3,123</b>	<b>(5,890)</b>	<b>2,171</b>
Cash, beginning of period	15,080	4,284	15,312	5,248
<b>Effect of foreign exchange fluctuations on cash held</b>	<b>(16)</b>	<b>7</b>	<b>(7)</b>	<b>(5)</b>
<b>Cash, end of period</b>	<b>9,415</b>	<b>7,414</b>	<b>9,415</b>	<b>7,414</b>

*See accompanying notes*

## **Pivot Technology Solutions, Inc.**

### **Notes to the unaudited interim condensed consolidated financial statements**

#### **For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

## **1. CORPORATE INFORMATION**

Pivot Technology Solutions, Inc. (“Pivot” or the “Company”) is located in Ontario, Canada, and is publicly listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “PTG”.

The Company has the following wholly-owned subsidiaries: Pivot Acquisition Corporation; ACS Holdings (Canada) Inc.; Pivot Technology Solutions, Ltd.; Pivot Research Ltd.; Pivot Shared Services Ltd.; Pivot of the Americas S.A. de C.V.; ACS (US) Inc. (“ACS”); Pivot Technology Services Corporation, fka New ProSys Corp., (“Prosys”), Sigma Technology Solutions, Inc. (“Sigma”), ARC Acquisition (US), Inc. (“ARC”), Smart-Edge.com, Inc. (“Smart Edge”), TeraMach Technologies Inc. and its parents, 1955714 Ontario Inc., Infortic Technology Inc., and TeraMach Systems Inc. (collectively, “TeraMach”), and Pivot Solutions International (UK) Ltd.

The Company also has the following partially owned subsidiaries: ACS Holdings Corporation, Pivot Services International Singapore Pte Ltd., Pivot Services Japan G.K. and Pivot Services Limited. The Company has a 94% ownership in each of these subsidiaries.

In addition, the Company has a 46.4% owned consolidated affiliate, ProSys Information Systems, Inc. (“Old ProSys”) and a 40% owned consolidated affiliate, Applied Computer Solutions, Inc. (“Applied”).

The Company seeks to create shareholder value by providing mission critical IT products and services to the world’s leading companies. The Company’s operating strategy is designed to help clients contain IT operations and maintenance costs, while maximizing the value of their IT assets. To achieve this strategy, the Company maintains multi-vendor hardware, software and cloud solutions that it resells, and then leverages its own resources and expertise to offer end-to-end services. By employing this strategy, the Company can provide a single point of contact and accountability, and a consistent delivery of customized and specialized IT services and lifecycle product support across any platform.

## **2. BASIS OF PREPARATION**

### **Statement of compliance**

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”).

The unaudited interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2019 and 2018 were authorized for issue in accordance with a resolution of the Company’s Board of Directors (“Board”) on November 12, 2019.

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

**Basis of presentation and consolidation**

The unaudited interim condensed consolidated financial statements are presented in U.S. dollars and all dollar values are rounded to the nearest thousand (\$000), except where otherwise noted.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

**Amended accounting pronouncements adopted in 2019**

The Company adopted new amendments to the following accounting standards effective for the Company's interim and annual consolidated financial statements commencing January 1, 2019. These changes did not have a material impact on the Company's financial results.

- IAS 12, *Income Tax Consequences of Payments on Instruments Classified as Equity (Amendments to IAS 12)*
- IFRIC 23, *Uncertainty over Income Tax Treatments*

**New accounting standards**

Pivot applied, for the first time, IFRS 16, *Leases* ("IFRS 16"), which requires assessment and potential restatement of previous financial statements, where transition adjustments exist.

As required by IAS 34, the nature and effect of these changes are disclosed below.

*Impact of application of IFRS 16*

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17, *Leases* ("IAS 17") and related interpretations.

IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of twelve months or less) and leases of low value assets. In applying IFRS 16, the Company recognizes the ROU asset and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; recognizes the depreciation of ROU assets and interest on lease liabilities in the unaudited condensed consolidated statements of income (loss)



**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

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and comprehensive income (loss); and separates the total amount of cash paid into a principal portion (presented in financing activities) and interest (presented within operating activities) in the consolidated statements of cash flows. For short-term leases and leases of low value assets, the Company has opted to recognize a lease expense on a straight-line basis, and this expense is presented within other selling, general and administrative expenses in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss).

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019. The weighted-average rate applied is 9%. Generally, ROU assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease, with no net impact on retained earnings.

The Company has made use of the following practical expedients available on transition to IFRS 16:

- 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 twelve months of the date of initial application, and account for them 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;
- Accounted for non-lease components and lease components as a single lease component.

The cumulative effect of the changes made to the January 1, 2019 consolidated statement of financial position for the adoption of IFRS 16 is as follows:

	<b>Balance as at December 31, 2018 (as reported)</b>	<b>IFRS 16 adjustments</b>	<b>Balance as at January 1, 2019</b>
<b>Assets</b>			
Right-of-use assets, net	-	16,468	<b>16,468</b>
Other assets	4,460	531	<b>4,991</b>
<b>Liabilities</b>			
Lease liabilities	-	18,379	<b>18,379</b>

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

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

	<b>January 1, 2019</b>
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)
<b>Lease liabilities due to initial application of IFRS 16 as at January 1, 2019</b>	<b>18,379</b>

*New accounting policy for leases under IFRS 16*

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease. The Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to twelve months, or for leases of low value. The payments for such leases are recognized in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is depreciated over the shorter 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 rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, 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 cost of the option is included in the lease payments. Variable lease payments that do not depend on an index or rate are not included in the measurement of the ROU asset and lease liability. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss).

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, not with reference to the underlying asset. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

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and rewards incidental to ownership of the ROU asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the ROU asset.

**4. RIGHT-OF-USE ASSETS, LEASE OBLIGATIONS AND NET INVESTMENT IN LEASES**

The following table presents the ROU assets, net, for the Company:

As at January 1, 2019	16,468
Additions	491
Reclassified as held for sale	(68)
Depreciation	(3,063)
Foreign exchange fluctuation	8
<b>As at September 30, 2019</b>	<b>13,836</b>

The following table presents the contractual undiscounted cash flows for lease obligations as at September 30, 2019:

Less than one year	4,908
One to two years	4,108
Two to five years	6,331
Over five years	2,576
<b>Total undiscounted lease obligations</b>	<b>17,923</b>

Interest expense on lease obligations for the three and nine months ended September 30, 2019 was \$309 and \$976, respectively. Total cash outflow for leases for the three months ended September 30, 2019 was \$1,268, including \$18 for short-term leases. Total cash outflow for leases for the nine months ended September 30, 2019 was \$4,063, including \$79 for short-term leases. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations.

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 net investment in lease is included in other current assets and other non-current assets in the unaudited interim condensed consolidated statement of financial position.

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The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

Less than one year	174
One to two years	174
Two to five years	218
<b>Total undiscounted lease payments receivable</b>	<b>566</b>

**5. ASSETS HELD FOR SALE**

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"), the Company classifies assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. For assets and disposal groups to be classified as held for sale, their sale must be highly probable to occur within one year, they must be available for immediate sale in their present condition, and management must be committed to a sales plan to actively market the sale of the assets or disposal group. Assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, and are presented separately from other assets on the unaudited interim condensed consolidated statements of financial position.

During 2019, the Company committed to a plan to sell Smart Edge and the plan was approved by the Board. The Company considered Smart Edge to have met the criteria to be classified as held for sale at that date for the following reasons:

- Smart Edge is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance state
- The Company closed the sale of Smart Edge on October 18, 2019 (note 19).

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognized on the classification of these operations as held for sale.

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

The major classes of assets and liabilities of Smart Edge classified as held for sale are as follows:

	<b>September 30, 2019</b>
Other current assets	43
Property, plant and equipment	508
ROU assets	68
Intangibles	2,565
Total assets classified as held for sale	3,184
Liabilities associated with assets classified as held for sale	(62)
<b>Net assets of disposal group</b>	<b>3,122</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance (“IBM”) on August 10, 2011, which provides short-term financing. The agreement currently allows for up to \$2,500 in advances on purchases from approved vendors, which maximum advance amount may be changed by IBM in its discretion. Approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. Currently, 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. \$1,339 and \$645 were outstanding under the IBM secured flooring agreement as at September 30, 2019 and December 31, 2018, respectively. The agreement does not impose any financial covenants on the Company. This amount is included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position.

## Pivot Technology Solutions, Inc.

### Notes to the unaudited interim condensed consolidated financial statements

#### For the three and nine months ended September 30, 2019 and 2018

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

#### 7. OTHER FINANCIAL LIABILITIES

	September 30, 2019	December 31, 2018
<b>Current</b>		
Secured borrowings, net of deferred loan costs	120,550	98,491
Contingent consideration	2,077	1,693
	<b>122,627</b>	100,184
<b>Non-current</b>		
Contingent consideration	1,073	1,178
Cash-settled share-based payment	359	-
	<b>1,432</b>	1,178
	<b>124,059</b>	101,362

#### Secured borrowings

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMorgan Chase Bank, N.A. ("JPMC"). On May 14, 2019, the agreement was extended and amended with improvements in certain terms. As amended, the facility provides the Company a \$225,000 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) 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 \$75,000. 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 twelve 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 sixty consecutive days. The Company was in compliance with all applicable covenants at September 30, 2019 and December 31, 2018.

The Company incurred finance costs 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 \$121,715 and \$99,069 as at September 30, 2019 and December 31, 2018, respectively. The outstanding balance is shown net of deferred loan costs of \$1,165 and \$578, as at September 30, 2019 and December 31, 2018, respectively, in current other financial liabilities in the unaudited interim condensed consolidated statements of financial position. Average undrawn availability on the

## Pivot Technology Solutions, Inc.

### Notes to the unaudited interim condensed consolidated financial statements

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(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

existing, secured credit facility was \$62,989 for the nine months ended September 30, 2019 and \$73,759 for the year ended December 31, 2018.

#### Interest rate swap

The changes in the fair value of the interest rate swap (“the Swap”) were recorded as a change in fair value of liabilities in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss). The Swap expired on November 13, 2018. Interest incurred under the Swap totaled nil and \$95 for the three months ended September 30, 2019 and 2018, respectively. Interest incurred under the Swap totaled nil and \$376 for the nine months ended September 30, 2019 and 2018, respectively.

#### Contingent consideration

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach. As part of the asset purchase agreement with TeraMach, contingent consideration had been agreed. The payments are dependent on the business achieving certain performance targets during the four consecutive twelve month periods ending September 30, 2020. TeraMach has achieved all of the performance targets at September 30, 2019. At the date of acquisition, the fair value of the contingent liability was determined to be \$3,324.

The changes in the TeraMach contingent liability balance for the nine months ended September 30, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	2,235	3,326
Change in fair value	569	801
Exchange rate differences	66	(86)
<b>Balance as at September 30</b>	<b>2,870</b>	<b>4,041</b>

The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C\$4,500. Payments of the remaining consideration are required to be made within five business days of Board approval of the Company’s Q3 financial statements.

On July 1, 2017, the Company acquired certain customer accounts, contracts, agreements and other arrangements from Cloudscapes Consulting, Inc. (“Cloudscapes”). As part of the purchase agreement with Cloudscapes, the Company is obligated to pay up to \$100 per quarter for 11 quarters and a bonus of \$150, 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 \$1,003. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is \$300.

## Pivot Technology Solutions, Inc.

### Notes to the unaudited interim condensed consolidated financial statements

#### For the three and nine months ended September 30, 2019 and 2018

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The changes in the Cloudscapes contingent liability balance for the nine months ended September 30, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	636	930
Change in fair value	94	76
Payments	(450)	(300)
<b>Balance as at September 30</b>	<b>280</b>	<b>706</b>

## 8. SHARE CAPITAL

The issued share capital amounted to \$82,907 and \$82,705 as at September 30, 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 nine months ended September 30, 2019 and 2018 were as follows:

# Common Shares	2019	2018
As at January 1	39,473,032	40,229,930
Share repurchases	-	(960,600)
Shares issued in vesting of RSUs	175,255	78,354
Options exercised	-	123,959
<b>As at September 30</b>	<b>39,648,287</b>	<b>39,471,643</b>

Note: Number of shares are not rounded

No preferred shares were issued or outstanding as at September 30, 2019 or December 31, 2018.

### Normal course issuer bid

On May 12, 2017, 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 normal course issuer bid (“NCIB”) at times when the Company would not be permitted to purchase shares, including regularly scheduled quarterly blackout periods. The ASPP was renewed on June 28, 2018 for a period that ended June 21, 2019. 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 Company obtained regulatory approval to proceed with several NCIB’s to repurchase up to 10% of the Company’s issued and outstanding common shares (excluding shares held by principal shareholders, directors and senior officers) at prevailing market prices during the NCIB period. The current NCIB period began June 24, 2019 and will expire on June 23, 2020. No purchases were made under the NCIB during the nine months ended September 30, 2019.



**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

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*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

**Loss per share**

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company's basic loss per share. Common share equivalents represent potentially dilutive stock options with a strike price below the average share price for the period and unvested restricted stock units ("RSUs" or "units"). Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect. The Company had a net loss available to common shareholders for all periods presented herein; therefore, none of the in the money stock options or unvested RSUs outstanding during each of the periods presented have been included in the computation of diluted loss per share as they were anti-dilutive. For the nine months ended September 30, 2019, there were no potentially dilutive shares excluded from the calculations of diluted loss per share as no stock options were in the money. Total potentially dilutive shares of 1,748,750 of common stock were excluded from the calculations of diluted loss per share for the nine months ended September 30, 2018. There were a total of 418,333 stock options that were out of the money for the nine months ended September 30, 2018.

The weighted average number of common shares issued and outstanding for the three month periods ended September 30, 2019 and 2018, was 39,537,892 and 39,621,214, respectively. The weighted average number of common shares issued and outstanding for the nine month periods ended September 30, 2019 and 2018, was 39,516,509 and 39,993,377, respectively

**Dividends declared and paid**

Common share dividends declared and paid during the nine months ended September 30, 2019 were as follows:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Distribution Date</b>	<b>Per share amount</b>	<b>Total dividend</b>
February 12, 2019	February 22, 2019	March 1, 2019	C\$0.04	C\$1,579
May 14, 2019	May 24, 2019	May 29, 2019	C\$0.04	C\$1,579
August 13, 2019	August 31, 2019	September 16, 2019	C\$0.04	C\$1,586

*Note: Per share amounts are not rounded*

## Pivot Technology Solutions, Inc.

### Notes to the unaudited interim condensed consolidated financial statements

#### For the three and nine months ended September 30, 2019 and 2018

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Common share dividends declared and paid during the nine months ended September 30, 2018 were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
February 20, 2018	February 28, 2018	March 15, 2018	C\$0.04	C\$1,612
May 14, 2018	May 31, 2018	June 15, 2018	C\$0.04	C\$1,596
August 14, 2018	August 31, 2018	September 14, 2018	C\$0.04	C\$1,579

Note: Per share amounts are not rounded

## 9. SHARE-BASED PAYMENTS

The Company has adopted 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 effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by shareholders on June 21, 2016. Certain administrative amendments to the plan were approved by the Board on May 15, 2019. 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 status of the Company's stock option plan as at September 30, 2019 and 2018 and during the nine months then ended is as follows:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding as at January 1	2,118,750	C\$1.79	1,946,875	C\$1.79
Options granted	-	-	380,000	C\$1.68
Options forfeited	(46,667)	C\$1.96	(35,833)	C\$1.76
Options exercised	-	-	(123,959)	C\$1.60
Options outstanding as at September 30	2,072,083	C\$1.79	2,167,083	C\$1.78
Options exercisable as at September 30	1,588,749	C\$1.76	1,510,415	C\$1.68

Note: Share and per share amounts are not rounded

**Pivot Technology Solutions, Inc.****Notes to the unaudited interim condensed consolidated financial statements****For the three and nine months ended September 30, 2019 and 2018***(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

The range of exercise prices, the weighted average exercise prices and the weighted average remaining contractual life of the Company's options are as follows:

September 30, 2019					
Options Outstanding			Options Exercisable		
Exercisable Price C\$	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price C\$	Number Exercisable	Weighted Average Remaining Contractual Life (Years)
1.60	1,168,750	6.72	1.60	1,168,750	6.72
1.68	480,000	3.88	1.68	126,665	3.88
1.73	25,000	0.17	1.73	25,000	0.17
2.47	388,333	2.75	2.47	261,667	2.75
2.61	10,000	2.92	2.61	6,667	2.92

*Note: Share and per share amounts are not rounded*

September 30, 2018					
Options Outstanding			Options Exercisable		
Exercisable Price C\$	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price C\$	Number Exercisable	Weighted Average Remaining Contractual Life (Years)
1.60	1,343,750	7.72	1.60	1,343,750	7.72
1.68	380,000	4.88	1.68	-	-
1.73	25,000	8.23	1.73	25,000	8.23
2.47	408,333	3.75	2.47	138,332	3.75
2.61	10,000	3.92	2.61	3,333	3.92

*Note: Share and per share amounts are not rounded***Restricted stock units**

The Company has adopted 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. The effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by shareholders on June 21, 2016. Certain administrative amendments to the RSU plan were approved by the Board on May 15, 2019. 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

**Pivot Technology Solutions, Inc.****Notes to the unaudited interim condensed consolidated financial statements****For the three and nine months ended September 30, 2019 and 2018**

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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 status of the Company's RSU plan as at September 30, 2019 and 2018 and during the periods then ended follows:

	2019		2018	
	Number	Weighted average grant date fair value	Number	Weighted average grant date fair value
Units outstanding as at January 1	697,538	C\$1.91	355,000	C\$2.47
Units granted	-	-	390,000	C\$1.68
Units reinvested (dividends)	60,141	C\$1.26	42,030	C\$2.22
Units vested	(241,667)	C\$2.05	(118,334)	C\$2.47
Units forfeited	(39,200)	C\$1.83	-	-
Units outstanding as at September 30	476,812	C\$1.77	668,696	C\$1.99

Note: Share and per share amounts are not rounded

The 241,667 RSUs that vested during the nine months ended September 30, 2019 were settled in shares, net of applicable taxes. 175,255 net shares were released to participants in August 2019. The 116,667 RSUs vested on June 30, 2018 were settled in shares, net of applicable taxes, and 78,354 shares were released to participants in July 2018. As at September 30, 2019 and 2018, there was \$447 and \$805, respectively, of total unrecognized compensation cost related to unvested RSU arrangements. This expense is expected to be recognized over a weighted average period of 1.51 years.

**Share-based compensation expense**

Total share-based compensation expense is recognized in employee compensation and benefits in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss). A reconciliation of the share-based compensation expense is provided below:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Share-based compensation on options	18	26	84	155
Share-based compensation on RSUs	92	76	279	186
Total share-based compensation expense	110	102	363	341

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**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 September 30, 2019, the award was valued at \$359. The shares vested immediately and will be settled in cash only in the event of a change-in-control of Smart Edge before March 31, 2027. This award is accounted for as a liability award with compensation cost to be measured as of the end of each reporting period based on the market value of Smart Edge's stock. Compensation costs related to the phantom stock award of \$359 for the nine months ended September 30, 2019 are included in other expense.

**10. FINANCIAL INSTRUMENTS**

The following tables set out the classification of financial and non-financial assets and liabilities:

<b>As at September 30, 2019</b>	<b>Fair value through profit or loss</b>	<b>Amortized cost</b>	<b>Non- financial</b>	<b>Total carrying amount</b>
Cash and cash equivalents	9,415	-	-	<b>9,415</b>
Accounts receivable	-	232,498	-	<b>232,498</b>
Inventories	-	-	53,492	<b>53,492</b>
Intangible assets	-	-	18,312	<b>18,312</b>
Goodwill	-	-	45,257	<b>45,257</b>
Deferred contract costs	-	-	34,098	<b>34,098</b>
Other non-financial assets	-	-	40,710	<b>40,710</b>
<b>Total assets</b>	<b>9,415</b>	<b>232,498</b>	<b>191,869</b>	<b>433,782</b>
Bank overdraft	14,791	-	-	<b>14,791</b>
Accounts payable and accrued liabilities	-	232,965	-	<b>232,965</b>
Deferred contract revenue	-	-	37,774	<b>37,774</b>
Other financial liabilities	3,150	136,709	-	<b>139,859</b>
Other non-financial liabilities	-	-	7,076	<b>7,076</b>
<b>Total liabilities</b>	<b>17,941</b>	<b>369,674</b>	<b>44,850</b>	<b>432,465</b>

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

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*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

As at December 31, 2018	Fair value through profit or loss	Amortized cost	Non- financial	Total carrying amount
Cash and cash equivalents	15,312	-	-	15,312
Accounts receivable	-	229,916	-	229,916
Inventories	-	-	53,800	53,800
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
<b>Total assets</b>	<b>15,312</b>	<b>229,916</b>	<b>176,091</b>	<b>421,319</b>
Bank overdraft	18,171	-	-	18,171
Accounts payable and accrued liabilities	-	254,430	-	254,430
Deferred contract revenue	-	-	31,279	31,279
Other financial liabilities	2,871	98,491	-	101,362
Other non-financial liabilities	-	-	8,829	8,829
<b>Total liabilities</b>	<b>21,042</b>	<b>352,921</b>	<b>40,108</b>	<b>414,071</b>

**Fair values**

The following tables present information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the guidance hierarchy in which the fair value measurements fall as at September 30, 2019 and December 31, 2018:

<b>Fair value as at September 30, 2019</b>				
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	<b>3,150</b>	<b>3,150</b>
	-	-	<b>3,150</b>	<b>3,150</b>

<b>Fair value as at December 31, 2018</b>				
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	2,871	2,871
	-	-	2,871	2,871

The fair value of all other financial instruments carried within the Company's unaudited interim condensed consolidated financial statements is not materially different from their carrying amount.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required

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to fair value an instrument are observable, the instrument is included in Level 2. Derivative financial instruments are recorded in Level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. Contingent consideration payable was the only instrument recorded as Level 3 as the amount payable was 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 agreement, using a discount rate of 26.0% and 15.5%. The Company recorded a charge of \$223 and \$313 related to the change in fair value of the contingent consideration for the three months ended September 30, 2019 and 2018, respectively. The Company recorded a charge of \$663 and \$877 related to the change in fair value of the contingent consideration for the nine months ended September 30, 2019 and 2018, respectively.

There have been no transfers among any levels during the period.

**11. INCOME TAXES**

The Company's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Company operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine months ended September 30, 2019 was 1.7% and (59.6)%, respectively. The effective tax rate for the three and nine months ended September 30, 2018 was (9.6)% and (8.0)%, respectively. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Company operates and unrecognized temporary differences.

**Pivot Technology Solutions, Inc.**

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**12. REVENUE**

**Disaggregation of revenue**

**Types of goods and services:**

Three months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	34,748	3,642	96,524	52,777	12,402	1	<b>200,094</b>
Other sales	11,356	-	17,711	685	1,873	(2)	<b>31,623</b>
<b>Product revenue</b>	<b>46,104</b>	<b>3,642</b>	<b>114,235</b>	<b>53,462</b>	<b>14,275</b>	<b>(1)</b>	<b>231,717</b>
Pivot provided services	3,094	-	13,256	5,077	2,663	2	<b>24,092</b>
Third-party maintenance contracts	1,888	-	9,358	2,120	448	-	<b>13,814</b>
<b>Service revenue</b>	<b>4,982</b>	<b>-</b>	<b>22,614</b>	<b>7,197</b>	<b>3,111</b>	<b>2</b>	<b>37,906</b>
<b>Total revenue</b>	<b>51,086</b>	<b>3,642</b>	<b>136,849</b>	<b>60,659</b>	<b>17,386</b>	<b>1</b>	<b>269,623</b>

Three months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	72,650	3,021	127,285	31,948	7,553	(3)	242,454
Other sales	11,107	-	19,304	10,664	1,811	4	42,890
Product revenue	83,757	3,021	146,589	42,612	9,364	1	285,344
Pivot provided services	4,007	-	10,100	5,662	2,786	2	22,557
Third-party maintenance contracts	2,106	-	9,269	1,975	138	-	13,488
Service revenue	6,113	-	19,369	7,637	2,924	2	36,045
<b>Total revenue</b>	<b>89,870</b>	<b>3,021</b>	<b>165,958</b>	<b>50,249</b>	<b>12,288</b>	<b>3</b>	<b>321,389</b>



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*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

<b>Nine months ended September 30, 2019</b>	<b>ACS</b>	<b>ARC</b>	<b>Prosys</b>	<b>Sigma</b>	<b>Tera Mach</b>	<b>Shared Services</b>	<b>Total</b>
Hardware sales	202,081	9,081	320,718	116,549	57,085	2	<b>705,516</b>
Other sales	27,844	-	48,426	6,861	10,073	(1)	<b>93,203</b>
<b>Product revenue</b>	<b>229,925</b>	<b>9,081</b>	<b>369,144</b>	<b>123,410</b>	<b>67,158</b>	<b>1</b>	<b>798,719</b>
Pivot provided services	9,050	-	33,413	16,401	7,922	4	<b>66,790</b>
Third-party maintenance contracts	10,227	-	28,117	4,808	2,249	(1)	<b>45,400</b>
<b>Service revenue</b>	<b>19,277</b>	<b>-</b>	<b>61,530</b>	<b>21,209</b>	<b>10,171</b>	<b>3</b>	<b>112,190</b>
<b>Total revenue</b>	<b>249,202</b>	<b>9,081</b>	<b>430,674</b>	<b>144,619</b>	<b>77,329</b>	<b>4</b>	<b>910,909</b>

<b>Nine months ended September 30, 2018</b>	<b>ACS</b>	<b>ARC</b>	<b>Prosys</b>	<b>Sigma</b>	<b>Tera Mach</b>	<b>Shared Services</b>	<b>Total</b>
Hardware sales	281,552	6,654	424,562	85,307	45,617	(3)	843,689
Other sales	31,088	-	51,973	20,821	8,101	3	111,986
Product revenue	312,640	6,654	476,535	106,128	53,718	-	955,675
Pivot provided services	12,837	-	35,943	18,189	7,957	5	74,931
Third-party maintenance contracts	6,555	-	28,594	4,732	1,511	-	41,392
Service revenue	19,392	-	64,537	22,921	9,468	5	116,323
Total revenue	332,032	6,654	541,072	129,049	63,186	5	1,071,998

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**Geographical markets:**

Three months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	49,318	3,642	134,721	56,946	-	-	<b>244,627</b>
Canada	298	-	175	263	17,339	-	<b>18,075</b>
International	1,470	-	1,953	3,450	47	1	<b>6,921</b>
<b>Total revenue</b>	<b>51,086</b>	<b>3,642</b>	<b>136,849</b>	<b>60,659</b>	<b>17,386</b>	<b>1</b>	<b>269,623</b>

Three months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	87,661	3,021	164,728	47,041	-	-	302,451
Canada	267	-	22	24	12,277	-	12,590
International	1,942	-	1,208	3,184	11	3	6,348
Total revenue	89,870	3,021	165,958	50,249	12,288	3	321,389

Nine months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	242,388	9,081	424,390	137,085	-	-	<b>812,944</b>
Canada	516	-	214	426	77,111	-	<b>78,267</b>
International	6,298	-	6,070	7,108	218	4	<b>19,698</b>
<b>Total revenue</b>	<b>249,202</b>	<b>9,081</b>	<b>430,674</b>	<b>144,619</b>	<b>77,329</b>	<b>4</b>	<b>910,909</b>

Nine months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	325,301	6,654	535,610	122,389	-	-	989,954
Canada	584	-	31	71	63,158	(1)	63,843
International	6,147	-	5,431	6,589	28	6	18,201
Total revenue	332,032	6,654	541,072	129,049	63,186	5	1,071,998

**Pivot Technology Solutions, Inc.****Notes to the unaudited interim condensed consolidated financial statements****For the three and nine months ended September 30, 2019 and 2018***(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)***Timing of revenue recognition:**

<b>Three months ended September 30, 2019</b>	<b>ACS</b>	<b>ARC</b>	<b>ProSys</b>	<b>Sigma</b>	<b>Tera Mach</b>	<b>Shared Services</b>	<b>Total</b>
Goods transferred at a point in time	46,104	3,642	114,235	53,462	14,275	(1)	<b>231,717</b>
Services transferred at a point in time	3,094	-	13,256	5,077	2,663	2	<b>24,092</b>
Services transferred over time	1,888	-	9,358	2,120	448	-	<b>13,814</b>
<b>Total revenue</b>	<b>51,086</b>	<b>3,642</b>	<b>136,849</b>	<b>60,659</b>	<b>17,386</b>	<b>1</b>	<b>269,623</b>

<b>Three months ended September 30, 2018</b>	<b>ACS</b>	<b>ARC</b>	<b>ProSys</b>	<b>Sigma</b>	<b>Tera Mach</b>	<b>Shared Services</b>	<b>Total</b>
Goods transferred at a point in time	83,757	3,021	146,589	42,612	9,364	1	285,344
Services transferred at a point in time	4,007	-	10,100	5,662	2,786	2	22,557
Services transferred over time	2,106	-	9,269	1,975	138	-	13,488
<b>Total revenue</b>	<b>89,870</b>	<b>3,021</b>	<b>165,958</b>	<b>50,249</b>	<b>12,288</b>	<b>3</b>	<b>321,389</b>

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

Nine months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	229,925	9,081	369,144	123,410	67,158	1	<b>798,719</b>
Services transferred at a point in time	9,050	-	33,413	16,401	7,922	4	<b>66,790</b>
Services transferred over time	10,227	-	28,117	4,808	2,249	(1)	<b>45,400</b>
<b>Total revenue</b>	<b>249,202</b>	<b>9,081</b>	<b>430,674</b>	<b>144,619</b>	<b>77,329</b>	<b>4</b>	<b>910,909</b>

Nine months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	312,640	6,654	476,535	106,128	53,718	-	955,675
Services transferred at a point in time	12,835	-	35,943	18,189	7,957	5	74,929
Services transferred over time	6,557	-	28,594	4,732	1,511	-	41,394
<b>Total revenue</b>	<b>332,032</b>	<b>6,654</b>	<b>541,072</b>	<b>129,049</b>	<b>63,186</b>	<b>5</b>	<b>1,071,998</b>

**13. OTHER EXPENSE**

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Restructuring	307	1,145	2,726	1,642
Transaction costs	589	67	863	134
Foreign exchange loss (gain)	(324)	509	962	(551)
Other expense (income)	(7)	80	(35)	69
	<b>565</b>	<b>1,801</b>	<b>4,516</b>	<b>1,294</b>

**14. CHANGE IN FAIR VALUE OF LIABILITIES**

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Contingent consideration	223	313	663	877
Interest rate swap	-	(87)	-	(454)
	<b>223</b>	<b>226</b>	<b>663</b>	<b>423</b>

**Pivot Technology Solutions, Inc.****Notes to the unaudited interim condensed consolidated financial statements****For the three and nine months ended September 30, 2019 and 2018***(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)***15. UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Accounts receivable	35,096	65,955	(2,648)	64,210
Income taxes recoverable/payable	233	(809)	(174)	(1,815)
Inventories	(5,547)	19,940	288	41,424
Other assets	954	3,993	(6,260)	3,417
Accounts payable and accrued liabilities	(54,087)	(23,833)	(19,298)	(60,196)
Other liabilities	(1,514)	(1,219)	3,565	(1,366)
	<b>(24,865)</b>	64,027	<b>(24,527)</b>	45,674

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest paid	1,416	1,417	4,454	3,931
Income taxes refunded	(530)	(125)	(566)	(125)
Income taxes paid	254	1,289	1,429	2,021

**16. BUSINESS SEGMENT INFORMATION**

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

**ACS**

The ACS segment is located in the United States and designs, sells and supports integrated computer hardware, software and networking products for business database, network and network security systems. ACS also provides comprehensive training services and offers first call support.

**ARC**

The ARC segment is located in the United States. ARC is an authorized reseller of technology and provides several professional services, including enterprise services, manager services and staffing services.

**ProSys**

The ProSys segment is located in the United States and sells storage, server and IT infrastructure consulting solutions to enterprises. The Company also derives revenue from professional engineering and installation services, and services provided by third parties including maintenance, consulting, and training services.

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

**Sigma**

The Sigma segment is located in the United States and derives revenue from the sale of computer hardware and software, software licenses, professional services and maintenance and support contracts.

**TeraMach**

The TeraMach segment is located in Canada and offers data center, security, big data, mobility and application services. Revenue is also derived from consulting and implementation services, staffing and cloud computing services.

**Smart Edge**

The Smart Edge segment is located in the United States. Smart Edge is an advanced software platform designed to support enterprise Multi-Access Edge Computing solutions and built to operate on Intel technology.

**Shared Services**

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

The Company has initiated a plan to integrate its operations across all of the business segments. Further, subsequent to September 30, 2019, the Company sold the assets of the Smart Edge segment (note 19). As a result, management expects the segments to be modified to align with the revised structure starting on January 1, 2020.

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

**Revenue and segment profit**

Three months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	51,086	3,642	136,849	60,659	75	17,386	(74)	269,623
Cost of sales	42,609	3,292	120,051	49,513	8	14,396	206	230,075
<b>Gross profit</b>	<b>8,477</b>	<b>350</b>	<b>16,798</b>	<b>11,146</b>	<b>67</b>	<b>2,990</b>	<b>(280)</b>	<b>39,548</b>
Employee compensation and benefits	5,196	90	8,724	5,020	722	2,065	5,401	27,218
Other selling, general and administrative expenses	1,140	45	3,221	1,389	259	260	(285)	6,029
<b>Income (loss) before the following:</b>	<b>2,141</b>	<b>215</b>	<b>4,853</b>	<b>4,737</b>	<b>(914)</b>	<b>665</b>	<b>(5,396)</b>	<b>6,301</b>
Depreciation and amortization								3,683
Finance expense								1,456
Change in fair value of liabilities								223
Other expense								565
<b>Earnings before income taxes</b>								<b>374</b>

  

Three months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	89,870	3,021	165,958	50,249	-	12,288	3	321,389
Cost of sales	78,511	2,603	147,404	41,330	-	10,807	(1)	280,654
Gross profit	11,359	418	18,554	8,919	-	1,481	4	40,735
Employee compensation and benefits	6,097	138	9,911	4,377	1,215	1,484	5,305	28,527
Other selling, general and administrative expenses	2,059	26	3,540	2,607	239	411	(839)	8,043
<b>Income (loss) before the following:</b>	<b>3,203</b>	<b>254</b>	<b>5,103</b>	<b>1,935</b>	<b>(1,454)</b>	<b>(414)</b>	<b>(4,462)</b>	<b>4,165</b>
Depreciation and Amortization								2,863
Finance expense								1,528
Change in fair value of liabilities								226
Other expense								1,801
<b>Loss before income taxes</b>								<b>(2,253)</b>

**Pivot Technology Solutions, Inc.**

**Notes to the unaudited interim condensed consolidated financial statements**

**For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

Nine months ended September 30, 2019	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	249,202	9,081	430,674	144,619	75	77,329	(71)	910,909
Cost of sales	217,109	8,060	378,140	120,302	8	64,975	1,186	789,780
<b>Gross profit</b>	<b>32,093</b>	<b>1,021</b>	<b>52,534</b>	<b>24,317</b>	<b>67</b>	<b>12,354</b>	<b>(1,257)</b>	<b>121,129</b>
Employee compensation and benefits	18,051	267	27,087	13,184	1,441	6,070	18,211	84,311
Other selling, general and administrative expenses	1,415	66	4,800	1,647	529	837	8,191	17,485
<b>Income (loss) before the following:</b>	<b>12,627</b>	<b>688</b>	<b>20,647</b>	<b>9,486</b>	<b>(1,903)</b>	<b>5,447</b>	<b>(27,659)</b>	<b>19,333</b>
Depreciation and amortization								11,161
Finance expense								4,631
Change in fair value of liabilities								663
Other expense								4,516
<b>Loss before income taxes</b>								<b>(1,638)</b>

Nine months ended September 30, 2018	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	332,032	6,654	541,072	129,049	-	63,186	5	1,071,998
Cost of sales	299,422	5,805	487,024	106,612	-	52,797	(301)	951,359
<b>Gross profit</b>	<b>32,610</b>	<b>849</b>	<b>54,048</b>	<b>22,437</b>	<b>-</b>	<b>10,389</b>	<b>306</b>	<b>120,639</b>
Employee compensation and benefits	19,154	356	30,516	13,131	2,976	5,473	14,938	86,544
Other selling, general and administrative expenses	4,201	40	6,836	3,075	648	1,284	7,244	23,328
<b>Income (loss) before the following:</b>	<b>9,255</b>	<b>453</b>	<b>16,696</b>	<b>6,231</b>	<b>(3,624)</b>	<b>3,632</b>	<b>(21,876)</b>	<b>10,767</b>
Depreciation and Amortization								8,573
Finance expense								4,614
Change in fair value of liabilities								423
Other expense								1,294
<b>Loss before income taxes</b>								<b>(4,137)</b>



**Pivot Technology Solutions, Inc.****Notes to the unaudited interim condensed consolidated financial statements****For the three and nine months ended September 30, 2019 and 2018**

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

**Segment assets and liabilities**

	September 30, 2019	December 31, 2018
<b>Assets</b>		
ACS	102,205	106,569
ARC	7,689	6,698
ProSys	209,474	203,186
Sigma	84,091	72,192
Smart Edge	5,665	2,937
TeraMach	20,865	21,704
Shared Services/Adjustments/Eliminations	3,793	8,033
	<b>433,782</b>	<b>421,319</b>
<b>Liabilities</b>		
ACS	53,595	58,383
ARC	11,904	11,293
ProSys	184,498	180,510
Sigma	86,386	74,932
Smart Edge	11,132	5,890
TeraMach	22,846	22,939
Shared Services/Adjustments/Eliminations	62,104	60,124
	<b>432,465</b>	<b>414,071</b>

**17. RELATED PARTY DISCLOSURES**

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 \$64,812 and \$93,472 for the three months ended September 30, 2019 and 2018, respectively. Total sales attributable to the activities of Old ProSys were approximately \$201,762 and \$326,791 for the nine months ended September 30, 2019 and 2018, respectively. Amounts due from Old ProSys were \$57,350 and \$83,173 as at September 30, 2019 and December 31, 2018, respectively.

The Company has certain contractual arrangements with Applied, 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 Applied to its third-party customers. Total sales attributable to the activities of Applied were \$25,409 and \$61,590 for the three months ended September 30, 2019 and 2018, respectively. Total sales attributable to the activities of Applied were \$176,073 and \$236,821 for the nine months ended September 30, 2019 and 2018, respectively. Amounts due from Applied were \$16,048 and \$16,122 as at September 30, 2019 and December 31, 2018, respectively.

## Pivot Technology Solutions, Inc.

### Notes to the unaudited interim condensed consolidated financial statements

#### For the three and nine months ended September 30, 2019 and 2018

*(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)*

The contractual arrangements with Applied and Old ProSys as described above accounted in aggregate for 33.5% and 48.2% of the overall Pivot revenues for the three months ended September 30, 2019 and 2018, respectively, and 41.5% and 52.6% of the overall Pivot revenues for the nine months ended September 30, 2019 and 2018, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

The Company incurred nil and \$250 for the three months ended September 30, 2019 and 2018, respectively, and nil and \$1,000 for the nine months ended September 30, 2019 and 2018, respectively 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. Nil and \$615 was payable as at September 30, 2019 and December 31, 2018, respectively.

#### 18. KEY MANAGEMENT COMPENSATION

The following table sets out the compensation of the key management of the Company:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Compensation	420	386	1,205	1,365
Annual incentive plans	488	93	800	450
Share-based compensation	-	183	-	183
Other compensation	18	1,261	66	1,678
	926	1,923	2,071	3,676

#### 19. SUBSEQUENT EVENTS

On October 18, 2019, the Company sold the assets of Smart Edge to a third party. The gross proceeds from the transaction were \$27,000, with \$25,000 paid on closing, and \$2,000 to be paid in 18 months after closing, subject to customary holdback terms and conditions. The Company expects to record a pre-tax gain of approximately \$21,000 to \$23,000 after finalizing closing costs and other matters in the fourth quarter of 2019.

On November 12, 2019, the Board declared a common share dividend of C\$0.04 per common share, for a total of C\$1,586, payable on December 16, 2019 to common shareholders of record on November 29, 2019.