

**PIVOT TECHNOLOGY SOLUTIONS, INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Months Ended September 30, 2019**

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*This Management’s Discussion and Analysis (the “MD&A”) for the three and nine months ended September 30, 2019 and 2018 is as of November 12, 2019 and provides information on the operating activities, performance and financial condition of Pivot Technology Solutions, Inc. (TSX: PTG) (“Pivot”, or the “Company”). This MD&A should be read in conjunction with Pivot’s unaudited interim condensed consolidated financial statements and the related notes for the three and nine months ended September 30, 2019, the audited consolidated financial statements and related notes for the years ended December 31, 2018 and 2017, and the Annual Information Form (“AIF”) for the year ended December 31, 2018. The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), and can be found at [sedar.com](http://sedar.com) and [pivotts.com](http://pivotts.com). The Company assumes that the reader of this MD&A has access to, and has read the audited consolidated financial statements prepared in accordance with IFRS and the MD&A of the Company for the year ended December 31, 2018 and, accordingly, the purpose of this document is to provide a 2019 third quarter update to the information contained in the 2018 MD&A.*

The three month period ended March 31 is referred herein as “Q1”. The three month period ended June 30 is referred herein as “Q2”. The six month period ended June 30 is referred herein as “H1”. The three month period ended September 30 is referred herein as “Q3”. The nine month period ended September 30 is referred herein as “9M”. The three month period ended December 31 is referred herein as “Q4”. The six month period ended December 31 is referred herein as “H2”. The twelve month period ended December 31 is referred herein as “12M”. The Company’s reporting currency is United States dollars (“U.S. Dollars”). All dollar amounts, except per share amounts stated in this MD&A, are in thousands of U.S. Dollars unless specified otherwise. Additional information related to the Company is contained in the Company’s filings with Canadian securities regulators, including its AIF, found on SEDAR at [sedar.com](http://sedar.com) and on the Company’s website at [pivotts.com](http://pivotts.com).

**Forward-looking statements**

Statements in this MD&A contain forward-looking information, including statements with respect to the Company’s outlook for 2019, growth in information technology (“IT”) spending in future periods, annualized cost reduction amount for 2019, additional costs to be incurred in connection with Pivot’s transformation plans, possible sources of funding for future growth, improvements in cost management and other operational efficiencies, implementation of various initiatives as part of the advancement of its strategy intended to create higher value revenue streams, interest rates applicable to the Company’s borrowings, the declaration of a dividend in future periods, the availability to borrow under the Company’s credit facilities, and the repurchase of shares under

the Company's Normal Course Issuer Bid ("NCIB"). Forward-looking information is based on assumptions of future events and actual results could vary significantly from these estimates. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. These assumptions include estimates of the profitability of its operations, growth in IT spending, particularly solutions and services, being in line with the overall market's expected growth rate in 2019, the availability of borrowings under the Company's credit facilities and access to other sources of capital, that its operational efficiency initiatives will result in improved results of operations, that the Company will successfully implement the initiatives identified in this MD&A as part of the advancement of its strategy, that the Company will be in a financial position to declare and pay a dividend in subsequent periods, or that the Company will be in a financial position to or that it will repurchase any additional shares for cancellation under the NCIB. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. Some of the important factors, but certainly not all, that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is based on estimated results; (ii) the possible unavailability of financing; (iii) lack of resources to fund growth; (iv) cost reductions in future periods being less significant than the annualized amount calculated based on prior periods; (v) start-up risks associated with new lines of business and product lines; (vi) general operating risks; (vii) dependence on third parties; (viii) changes in government regulation; (ix) the effects of competition; (x) delays in the adoption of 5G technologies; (xi) dependence on senior management, (xii) the impact of Canadian and/or United States ("U.S.") economic conditions, including the impact of international trade disputes; (xiii) fluctuations in currency exchange rates and interest rates; (xiv) uncertainty with respect to the ability of the Company to pay a quarterly dividend in subsequent periods; (xv) uncertainty with respect to the number of shares to be repurchased for cancellation by the Company under the NCIB; and (xvi) the other risks described in the Company's AIF for the year ended December 31, 2018 under the heading "Risk Factors", available at [sedar.com](http://sedar.com) and [pivotts.com](http://pivotts.com). The reader is cautioned not to place undue reliance on this forward-looking information. The Company expressly disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required in accordance with applicable securities laws.

### **Key performance indicators**

Pivot measures the success of its strategies using a number of key performance indicators. These include revenues, gross profit and adjusted EBITDA. Pivot believes these are important measures as they allow the Company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations. (*See Non-IFRS measures*)

## **Business profile**

Pivot is an industry-leading IT services and solutions provider to many of the world's most successful companies, including members of the Fortune 1000, as well as governments and educational institutions. By leveraging its extensive original equipment manufacturer (“OEM”) partnerships and its own fulfillment, professional, deployment, workforce and managed services, Pivot supports the IT infrastructure needs of its customers.

The Company has offices across North America, as well as Europe. Pivot's business strategy emphasizes offering technology, multi-vendor sourcing and implementation solutions to support, plan and provide for the IT needs of customers through a consultative approach with innovative solutions. Pivot's approach helps customers improve their business performance, reduce capital and operating expenses and accelerate the delivery of new products and services. Pivot provides its customers with IT solutions for their application infrastructure and networking needs as well as providing a broad range of services, including professional advisory services, deployment services, integration services, workforce services and managed services (“Pivot Provided Services”).

Traditional IT resellers provide OEM solutions and are often characterized as vendor-centric institutions. Resellers evolve to IT multi-vendor solutions providers by creating reference architectures for multiple vendor solutions, and implementing these solutions on their behalf. As a result of Pivot's relationships with many industry-leading technology OEMs, its sales professionals and engineers are able to recommend a wide range of solutions to its customers.

## **Strategy**

Pivot's strategy is to create shareholder value by providing mission critical IT products and fully integrated services offerings to some of the world's leading companies. Pivot's operating strategy is designed to help customers optimize their IT operations, minimize their capital spend and reduce maintenance costs. To execute this strategy, Pivot has multi-vendor hardware, software, edge and cloud solutions that it resells and leverages its own resources, expertise, and partners to offer a broad range of services. By employing this strategy, Pivot provides a single point of contact and accountability, a consistent delivery of customized and specialized IT services and lifecycle product support.

The Company operates with a continuous improvement approach to enhance operational efficiencies. This includes maximizing the utilization of its service delivery capabilities, as well as expanding its service portfolio.

The Company's strategy is comprised of several initiatives: (i) continue to build on Pivot's core business of selling IT solutions, both products and services; (ii) enhance Pivot's services portfolio and capabilities, specifically related to services that Pivot delivers; (iii) continue the Company's commercial transformation to expand Pivot's addressable opportunities with existing customers; (iv) support customers as they expand internationally; (v) improve cost management; (vi) address

legacy issues; and (vii) commercialize edge technology and related services. Management believes that the application of this strategy over time will deliver meaningful benefits for Pivot, its customers, shareholders and employees, including improved competitive differentiation in the marketplace and better financial performance.

During Q3 2018, the Company initiated certain activities to remove costs from the business. These activities include integrating certain functions and operations throughout the Company, facility cost reductions and terminating underperforming relationships. During the past year, the Company has reduced overall headcount while making strategic hires to address areas where there are opportunities to accelerate growth, such as software defined and edge technologies. The Company has also terminated certain consulting contracts and exited two facilities in the US. The changes implemented to the end of Q3 2019 should result in over \$8,000 of annualized cost reduction. These cost reductions impact both cost of goods sold and selling, general and administrative expenses. Through these initiatives, the Company expects to accelerate the growth of its services business, while providing a lower cost base to support its product business. The Company incurred \$2,726 and \$1,642 of cost associated with these activities during 9M 2019 and 9M of 2018, respectively. The Company expects to incur additional costs in Q4 2019 as it implements its transformation plans.

During Q3 2019, the Company continued its integration project, and is planning to combine certain U.S. wholly owned subsidiaries and related business units into a single Pivot brand. This will allow the Company to centralize or combine several functional areas. This integration is expected to generate additional cost reductions, while improving controls and creating efficiencies. This integration will consist, in part, of a merger of certain wholly owned subsidiaries in the U.S. on January 1, 2020.

Subsequent to quarter end, in October 2019, the Company finalized the sale of the assets of its Smart Edge™ (“Smart Edge”) technology to Intel Corporation (“Intel”). The sale was finalized for a gross purchase price of \$27,000, with \$25,000 paid on closing and \$2,000 to be paid eighteen months after closing, subject to standard adjustments for representations and warranties. Further, the transaction resulted in the reduction in future operating expenses needed to support the development of the Smart Edge platform, and provided Pivot with a preferred channel partner agreement with Intel which provides Pivot an advantage to lead the market in edge services. *(See Sale of Smart Edge assets)*

## **Non-IFRS measures**

### *Adjusted EBITDA*

The Company uses certain non-IFRS measures to evaluate its performance. The term “Adjusted EBITDA” does not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other issuers. Such measures should not be

considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS such as net income. Adjusted EBITDA is defined as gross profit less employee compensation and benefits, other selling, general and administrative expenses, and corresponds to income (loss) before income taxes, depreciation and amortization, finance expense, change in fair value of liabilities, and other expense.

Management believes adjusted EBITDA is an important indicator of the Company's operating performance as it excludes certain items that are either non-cash expenses, items that cannot be influenced by management in the short term, and items that do not impact core operating performance, demonstrating the Company's ability to generate liquidity through operating cash flow to fund working capital needs, service outstanding debt and fund future capital expenditures. Adjusted EBITDA is used by some investors and analysts for the purposes of valuing an issuer. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts and is also used by management as an internal performance measurement.

Adjusted EBITDA is a non-IFRS measure, reconciled to income (loss) before income taxes as follows:

	Three months ended September 30, <i>(unaudited)</i>		Nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
<b>Income (loss) before income taxes</b>	<b>374</b>	(2,253)	<b>(1,638)</b>	(4,137)
Depreciation and amortization <sup>(1)</sup>	<b>3,683</b>	2,863	<b>11,161</b>	8,573
Finance expense	<b>1,456</b>	1,528	<b>4,631</b>	4,614
Change in fair value of liabilities	<b>223</b>	226	<b>663</b>	423
Other expense	<b>565</b>	1,801	<b>4,516</b>	1,294
<b>Adjusted EBITDA</b>	<b>6,301</b>	4,165	<b>19,333</b>	10,767

*Notes: Amounts presented are in thousands of U.S. dollars*

*(1) See new accounting standards for impact of IFRS 16*

### Q3 Highlights

- Revenues of \$269,623 decreased \$51,766 or 16.1% in Q3 2019 as compared to Q3 2018. Product sales declined \$53,627 or 18.8% while service revenues increased \$1,861 or 5.2% in Q3 2019 as compared to Q3 2018. Pivot Provided Services increased \$1,535 or 6.8% in Q3 2019 as compared to Q3 2018.
- Gross profit decreased \$1,187 or 2.9% in Q3 2019 as compared to Q3 2018. Gross profit margin increased to 14.7% in Q3 2019 as compared to 12.7% for Q3 2018.
- Adjusted EBITDA of \$6,301 increased \$2,136 or 51.3% in Q3 2019 as compared to Q3 2018.

- The Company generated net income of \$367 in Q3 2019, an increase of \$2,840 as compared to Q3 2018.
- Pivot generated a loss per common share of \$0.01 for Q3 2019 as compared to a \$0.07 loss per common share for Q3 2018.
- On August 13, 2019, the Pivot Board of Directors (“BOD”) declared a common share dividend of C\$0.04 per common share, for a total of C\$1,586, payable on September 16, 2019 to common shareholders of record on August 31, 2019.

### **Developments subsequent to Q3**

- On November 12, 2019, the BOD 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.
- On October 18, 2019, the Company finalized the sale of the assets of Smart Edge to Intel for gross proceeds of \$27,000. As part of the transaction, Intel assumes all the staff directly working on the Smart Edge platform and their related costs. *(See Sale of Smart Edge assets)*
- On October 17, 2019, the Company announced the promotion of Scott Ward to the newly created position of Chief Revenue Officer. In this new role, all of the Pivot sales team reports to Mr. Ward, and he will work closely with our strategic partners to expand Pivot’s addressable market. Scott previously held the position of Executive Vice President with Pivot since October 2017.

### **Outlook for 2019**

Management’s outlook is that some customers remain cautious in their approach to IT investments, the global economic environment has not changed significantly and the market appears to be stable. This outlook is consistent with the Company’s outlook for the past several quarters. The Company is experiencing continued pricing and margin pressures in its product business, while margins remain strong in the services side of the business. The Company is monitoring trade discussions between the U.S. and China and the potential impact of tariffs, however the long-term impact of these discussions has not yet been determined. The increased acceptance of cloud computing has created uncertainty for hardware in the industry, primarily data centre technology, while creating opportunity for services. Management believes Pivot’s opportunities to create shareholder value through its product and services strategy are robust and the secular trends driving IT spending, particularly spending on solutions and services, are positive and are expected to grow in line with the overall market’s expected growth rate in 2019 and 2020.

As part of the integration activities, the separate business unit sales organizations will be combined into one organization. This integrated organization will evolve the sales model to engage customers in a more strategic fashion to develop comprehensive relationships built on the value of

selling Pivot's expanded services portfolio. The sales cycle for service solutions tends to be longer than the cycle for product sales. The execution of this strategy is intended to create higher value recurring revenue streams over time that offer greater predictability of performance by reducing the Company's exposure to the capital expenditure cycles of its customers. The refinement of the Company's services strategy may not offset capital spending volatility in the short term, although management believes the prospects for product sales are positive.

Smart Edge is an advanced software platform designed to support enterprise multi-access edge computing solutions and built to operate on Intel technology. While the assets of Smart Edge were sold in October 2019, the Company continues to drive the sale, deployment and management of edge solutions while leveraging its knowledge of edge technologies. An element of this strategy is the preferred channel partner agreement with Intel, which allows Pivot to resell the Smart Edge solution and work with Intel on the services and management around the edge opportunities. *(See Sale of Smart Edge assets)*

The Company continually seeks to expand its position in the global IT market organically and through selective and accretive acquisitions. The Company's strong and diverse customer and vendor partner relationships provide the foundation to pursue its strategy.

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

## SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

	For the three months ended September 30, <i>(unaudited)</i>		For the nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
<b>Revenue</b>	<b>269,623</b>	321,389	<b>910,909</b>	1,071,998
Cost of sales	<b>230,075</b>	280,654	<b>789,780</b>	951,359
<b>Gross profit</b>	<b>39,548</b>	40,735	<b>121,129</b>	120,639
Employee compensation and benefits	<b>27,218</b>	28,527	<b>84,311</b>	86,544
Other selling, general and administrative expenses	<b>6,029</b>	8,043	<b>17,485</b>	23,328
<b>Income before the following:</b>	<b>6,301</b>	4,165	<b>19,333</b>	10,767
Depreciation and amortization	<b>3,683</b>	2,863	<b>11,161</b>	8,573
Finance expense	<b>1,456</b>	1,528	<b>4,631</b>	4,614
Change in fair value of liabilities	<b>223</b>	226	<b>663</b>	423
Other expense	<b>565</b>	1,801	<b>4,516</b>	1,294
<b>Income (loss) before income taxes</b>	<b>374</b>	(2,253)	<b>(1,638)</b>	(4,137)
Provision for income taxes	<b>7</b>	220	<b>976</b>	335
<b>Income (loss) for the period</b>	<b>367</b>	(2,473)	<b>(2,614)</b>	(4,472)
Income (loss) for the period attributable to non-controlling interests	<b>684</b>	335	<b>(325)</b>	591
Loss for the period attributable to shareholders	<b>(317)</b>	(2,808)	<b>(2,289)</b>	(5,063)
<b>Other comprehensive income (loss)</b>				
<b>Items that may be reclassified subsequently to income (loss) for the period:</b>				
Exchange gain (loss) on translation of foreign operations	<b>13</b>	23	<b>(22)</b>	20
<b>Total comprehensive income (loss)</b>	<b>380</b>	(2,450)	<b>(2,636)</b>	(4,452)
<b>Total comprehensive loss attributable to shareholders</b>	<b>(304)</b>	(2,785)	<b>(2,311)</b>	(5,043)
<b>Loss per common share:</b>				
Loss attributable to common shareholders	<b>(317)</b>	(2,808)	<b>(2,289)</b>	(5,063)
Basic	<b>\$ (0.01)</b>	\$ (0.07)	<b>\$ (0.06)</b>	\$ (0.13)
Diluted	<b>\$ (0.01)</b>	\$ (0.07)	<b>\$ (0.06)</b>	\$ (0.13)
Total assets	<b>433,782</b>	416,307	<b>433,782</b>	416,307
Total current non-financial liabilities	<b>29,632</b>	43,771	<b>29,632</b>	43,771
Cash dividends declared on common shares	<b>1,207</b>	1,207	<b>3,582</b>	3,697

*Note: Amounts presented are in thousands of U.S. dollars, except per share amounts*



## FINANCIAL AND OPERATING RESULTS

The following is an analysis of the Company's results for the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018.

### Revenue and gross profit

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Product sales	231,717	285,344	798,719	955,675
Service revenues	37,906	36,045	112,190	116,323
<b>Total revenue</b>	<b>269,623</b>	<b>321,389</b>	<b>910,909</b>	<b>1,071,998</b>
<b>Cost of sales</b>	<b>230,075</b>	<b>280,654</b>	<b>789,780</b>	<b>951,359</b>
<b>Gross profit</b>	<b>39,548</b>	<b>40,735</b>	<b>121,129</b>	<b>120,639</b>
<b>Gross profit margin</b>	<b>14.7%</b>	<b>12.7%</b>	<b>13.3%</b>	<b>11.3%</b>

Notes: Amounts presented are in thousands of U.S. dollars

Total revenue of \$269,623 decreased 16.1% or \$51,766 for Q3 2019 as compared to the same period in the prior year. This decline was primarily attributable to a \$46,019 decrease in sales to major customers. (See Major customers below). Revenues attributable to the ACS and ProSys segments declined by \$38,784 and \$29,109, respectively, while the Sigma and TeraMach segments saw growth of \$10,410 and \$5,098, respectively.

Total revenue of \$910,909 decreased 15.0%, or \$161,089 for 9M 2019 as compared to the same period in the prior year, with major customers declining \$170,188 partially offset by increased revenue from non-major customers. Revenues attributable to the ACS and ProSys segments declined by \$82,830 and \$110,398, respectively, offset by an increase in Sigma and TeraMach revenues of \$15,570 and \$14,143, respectively.

Product sales of \$231,717 decreased \$53,627 or 18.8% for Q3 2019 as compared to the same period in the prior year. The decline was primarily driven by a drop in product sales to major customers. (See Major customers below). Product sales attributable to the ACS and ProSys segments declined by \$37,653 and \$32,324, respectively, while the Sigma and TeraMach segments saw growth of \$10,850 and \$4,911 respectively.

Product sales of \$798,719 decreased \$156,956 or 16.4% for 9M 2019 as compared to the same period in the prior year, primarily due to the decrease in product sales to major customers. Revenues attributable to the ACS and ProSys segments declined by \$82,715 and \$107,391, respectively, while the Sigma and TeraMach segments grew by \$17,282 and \$13,440, respectively.

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Pivot provided services	24,092	22,557	66,790	74,931
Third-party maintenance contracts	13,814	13,488	45,400	41,392
<b>Total service revenues</b>	<b>37,906</b>	<b>36,045</b>	<b>112,190</b>	<b>116,323</b>

*Notes: Amounts presented are in thousands of U.S. dollars*

Service revenues are comprised of Pivot Provided Services and revenues from third party maintenance and support contracts. Service revenues of \$37,906 increased \$1,861 or 5.2% for Q3 2019 as compared to same period in the prior year. Pivot Provided Services increased by \$1,535 or 6.8%, while third party maintenance and support contracts increased by \$326 or 2.4%. The increase in Pivot Provided Services was due to a new deployment project partially offset by a workforce services contract which was winding down in the prior year quarter. The increase in third party maintenance and support contracts is primarily driven by the timing of certain contracts and renewals.

Year over year, service revenues of \$112,190 decreased \$4,133 or 3.6% for 9M 2019 as compared to same period in the prior year. Pivot Provided Services declined by \$8,141 or 10.9%, while third party maintenance and support contracts increased by \$4,008 or 9.7%. The decline in Pivot Provided Services is primarily due to certain workforce services contracts winding down in 2018 combined with 2018 including \$3,202 of revenue from a large non-recurring deployment services project. These declines have been partially offset by a new deployment project which began in 2019. The increase in third party maintenance and support contracts is primarily driven by the timing of certain contracts and renewals.

The Company had been experiencing pressure in its third party service revenue prior to this quarter, which it expects to continue into the future. The Company's strategy is focused on growing its Pivot Provided Services.

In general, changes in revenue quarter over quarter are attributable to a number of factors, including, but not limited to, timing of larger projects and replenishments, vendor incentive programs, competitive pressures in the market and timing of service delivery within our professional services category. Service revenues can also be impacted due to customer requirements relating to bundling of product and service offerings and the timing of their investment needs.

### **Major customers**

The Company reviews and evaluates revenue and gross profit margin by major versus non-major customers. A major customer is defined as a customer that generates revenues 10% or greater of total annual revenues to the Company in a reporting period. Generally, the significance of the

quantity of products sold or services provided to these customers provides major customers with additional buying power, and thus the Company earns a reduced gross profit margin to generate increased revenues and maintain strong relationships.

Major customers represented \$42,766 or 15.9% and \$88,785 or 27.6%, of total revenues for Q3 2019 and 2018, respectively, and \$180,120 or 19.8%, and \$350,308 or 32.7% of total revenues for 9M 2019 and 2018, respectively.

### Cost of sales and gross profit

Cost of sales of \$230,075 decreased \$50,579 or 18.0% for Q3 2019 over the same quarter in the prior year primarily as a result of decreased product revenue. Gross profit of \$39,548 decreased \$1,187 or 2.9% for Q3 2019 as compared to the same period in the prior year. Gross profit margins increased to 14.7% from 12.7% in Q3 2018. Cost of sales of \$789,780 decreased \$161,579 or 17.0% for 9M 2019 as compared to the same period in the prior year, driven by overall decreases in revenue. Gross profit of \$121,129 increased \$490 or 0.4% for 9M 2019 as compared to the same period in the prior year. Gross profit margins increased to 13.3% from 11.3% for 9M 2018. Despite decreased revenue quarter over quarter and year over year, gross profit and gross profit margins were positively impacted by cost reductions in service related cost of sales, as well as the reduction of sales to major customers, who generally have lower gross profit margins.

The Company continues its strategy to increase service revenues which generally have better gross profit margins than product sales to improve overall gross profit margins. In addition, the Company continually works with its suppliers to mitigate the impact of pricing pressures.

### Selling, general and administrative expenses

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Employee compensation and benefits	27,218	28,527	84,311	86,544
Other selling and administrative expenses	6,029	8,043	17,485	23,328
	<b>33,247</b>	36,570	<b>101,796</b>	109,872

*Notes: Amounts presented are in thousands of U.S. dollars*

Selling, general and administrative expenses ("SG&A") for Q3 2019 decreased \$3,323 or 9.1% to \$33,247 as compared to the same period in the prior year. The net overall decrease is due to a number of factors, including but not limited to:

- Net spending on Smart Edge development decreased by \$486 quarter over quarter as the Company began capitalizing certain qualified development costs at the start of 2019. The

total amount capitalized in Q3 2019 was \$1,115. Gross spending on Smart Edge increased by \$629 compared to the prior quarter, excluding amounts capitalized.

- Rent expense declined by \$1,355, primarily due to the implementation of IFRS 16 and cost reduction activities. Under the new accounting rules, certain facility leases are capitalized and depreciated. The adoption of IFRS 16 resulted in increased depreciation and finance expense of \$1,027 and \$309, respectively. *(See New accounting standards)*
- Excluding the impact of Smart Edge, employee compensation and benefits decreased \$816 or 3.0% quarter over quarter. This decrease was primarily due to cost reduction efforts, as well as lower commissions on decreased gross profit.

SG&A for 9M 2019 decreased \$8,076 or 7.4% to \$101,796 as compared to the same period in the prior year. The net overall decrease is due to a number of factors, including, but not limited to:

- Net spending on Smart Edge development decreased by \$1,377 as the Company began capitalizing certain qualified development costs at the start of 2019. The total amount capitalized during 9M 2019 was \$3,065. Gross spending on Smart Edge increased by \$1,689 compared to the same period in the prior year, excluding amounts capitalized.
- Rent expense declined by \$3,974, primarily due to the implementation of IFRS 16 and cost reduction activities. The adoption of IFRS 16 resulted in increased depreciation and finance expense of \$3,063 and \$976, respectively. *(See New accounting standards)*
- Excluding the impact of Smart Edge, employee compensation and benefits decreased \$698 or 0.8% year over year. Reductions in headcount and contractor costs from the Company's cost reduction activities were \$2,699, partially offset by increased commissions and bonuses related to increased gross profit and Adjusted EBITDA.

## Finance expense

	Three months ended September 30, <i>(unaudited)</i>		Nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
Finance expense	<b>1,456</b>	1,528	<b>4,631</b>	4,614

*Notes: Amounts presented are in thousands of U.S. dollars*

Finance expense decreased \$72 or 4.7% to \$1,456 and increased \$17 or 0.4% to \$4,631 for the three and nine months ended September 30, 2019, as compared to the same periods in the prior year.

The Company implemented IFRS 16 effective January 1, 2019, using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated. Included in finance expense is \$309 and nil, and \$976 and nil of interest expense for the three and nine months

ended September 30, 2019 and 2018, respectively, on lease obligations arising from the adoption of IFRS 16.

Finance expense, which consists primarily of interest and fees on the Company's senior secured credit facility with JPMC, were impacted by overall increases in LIBOR and U.S. Prime interest rates, which caused an average increase of 0.7% in related interest and fees charged on the JPMC facility for the three and nine months ended September 30, 2019, as compared to the same periods in the prior year. The effective rates of interest on the Company's senior secured credit facility were 4.3% and 3.3% for the three months ended September 30, 2019 and 2018, respectively. The effective rates of interest on the Company's senior secured credit facility were 4.3% and 3.8% for the nine months ended September 30, 2019 and 2018, respectively. Average borrowings on the JPMC facility were \$107,134 and \$120,621 for the three months ended September 30, 2019 and 2018, respectively. Average borrowings on the JPMC facility were \$109,475 and \$119,543 for the nine months ended September 30, 2019 and 2018, respectively.

## Other expense

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

*Notes: Amounts presented are in thousands of U.S. dollars*

Other expense decreased \$1,236 to \$565 for Q3 2019 as compared to the same period in the prior year. The net decreases are due to a number of factors as follows:

- Foreign exchange gains associated with the weakening of the Canadian dollar as compared to the U.S. dollar.
- Restructuring costs were not significant during Q3 2019. The Company expects to incur additional restructuring costs as a result of the planned merger of several of the Company's wholly-owned U.S. subsidiaries. In Q3 2018, the Company incurred \$1,145 of cost related to its commercial transformation.
- Increased transaction costs related to the sale of Smart Edge assets and the GTS lawsuit. *(See Sale of Smart Edge Assets, and Other Matters)*

Other expense increased \$3,222 to \$4,516 for 9M 2019 over the same period in the prior year. The net increases are due to a number of factors including, but not limited to:

- Foreign exchange losses associated with the weakening of the U.S. dollar as compared to the Canadian dollar.
- Restructuring costs primarily related to cost cutting measures incurred in H2 2018 and 9M 2019. The Company expects to incur additional restructuring costs as a result of the planned merger of several of the Company’s wholly-owned U.S. subsidiaries.
- Increased transaction costs related to the sale of Smart Edge assets and the GTS lawsuit. *(See Sale of Smart Edge Assets, and Other Matters)*

### Provision for income tax

	Three months ended September 30, <i>(unaudited)</i>		Nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
Provision for income taxes	7	220	976	335

*Notes: Amounts presented are in thousands of U.S. dollars*

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 provision for income tax decreased \$213 or 96.8% for Q3 2019 and increased \$641 or 191.3% for 9M 2019 over the same periods in the prior year. The effective tax rate for the three and nine month periods ended September 30, 2019 was 1.7% and (59.6)%, respectively. The effective tax rate for the three and nine month periods 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.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, (unaudited)							
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Revenues	<b>269,623</b>	345,688	295,598	301,632	321,389	381,343	369,266	399,407
Gross profit	<b>39,548</b>	44,957	36,624	42,514	40,735	40,605	39,299	48,878
Adjusted EBITDA <sup>(1)</sup>	<b>6,301</b>	9,692	3,340	4,772	4,165	5,104	1,498	11,125
Net income (loss)	<b>367</b>	1,019	(4,000)	2	(2,473)	265	(2,264)	(2,586)
Income (loss) per share:								
Basic	<b>(\$0.01)</b>	\$0.04	(\$0.09)	\$0.01	(\$0.07)	\$0.01	(\$0.06)	(\$0.07)
Diluted	<b>(\$0.01)</b>	\$0.04	(\$0.09)	\$0.01	(\$0.07)	\$0.01	(\$0.06)	(0.07)
Cash dividends declared on common shares	<b>1,207</b>	1,176	1,199	1,203	1,207	1,231	1,259	1,246
Total assets <sup>(2)</sup>	<b>433,782</b>	472,194	452,709	421,319	416,307	505,588	469,176	527,883
Total current non- financial liabilities <sup>(2)</sup>	<b>29,632</b>	29,537	29,922	28,455	43,771	31,717	33,145	33,947

*Notes: Amounts presented are in thousands of U.S. dollars, except per share amounts*

<sup>(1)</sup> A Non-IFRS measure (See Non-IFRS measures)

<sup>(2)</sup> Amounts as at period date

The table above shows selected financial information from the results of operations of the Company for the periods indicated. The financial results are not necessarily indicative of the results that may be expected for any other future comparative period.

In general, the business tends to fluctuate from quarter to quarter. This is driven by a variety of factors including timing of capital-related spending by large customers who often use budgeted funds before the end of their fiscal periods. Accordingly, a small number of large customers could periodically cause significant fluctuations in revenue and associated profits in any given quarter, depending on the timing of key projects. Additionally, OEMs tend to create higher sales activity at their own year ends as steeper discounts may be offered to incentivize higher volumes.

## LIQUIDITY AND CAPITAL RESOURCES

Pivot's capital requirements consist primarily of working capital necessary to fund operations and capital to finance the cost of strategic acquisitions. Sources of funds available to meet these requirements include existing cash balances, cash flow from operations and secured borrowings. Pivot must generate sufficient earnings and cash flow from operations to satisfy its covenants in order to provide access to additional capital under its secured borrowings. Failure to do so would adversely impact Pivot's ability to pay current liabilities and comply with covenants applicable to its secured borrowings (see details of covenants in "Secured borrowings").

As at September 30, 2019 and December 31, 2018, total cash on hand was \$9,415 and \$15,312, respectively. As at September 30, 2019 and December 31, 2018, amounts borrowed under existing credit facilities were \$121,715 and \$99,069, respectively. There were working capital deficiencies of \$77,314 and \$76,555 as at September 30, 2019 and December 31, 2018, respectively. The working capital deficiencies primarily originate from bank financings obtained to fund business acquisitions in previous years. Since 2011, the Company's initial investment in acquisitions was in excess of \$80,000. Due to the fact that the borrowing rate on the Company's secured credit facility is favorable compared to market terms on long-term debt, the Company continues to strategically finance the investments related to its business acquisitions using a short-term facility. The change in working capital from December 31, 2018 is the result of the net loss in 9M 2019 combined with the impacts of IFRS 16, which added \$3,663 to current liabilities, while the corresponding asset is included in long term assets and is excluded from working capital, offset by the reclassification of \$3,184 related to the plan to sell Smart Edge assets from non-current assets to assets held for sale.

Average undrawn availability on the Company's secured credit facilities was \$62,989 and \$73,759 for the nine months ended September 30, 2019 and the twelve months ended December 31, 2018, respectively.

### **Sale of Smart Edge assets**

Subsequent to quarter end, the Company sold the assets of the Smart Edge technology to Intel. Highlights of the transaction include:

- Gross proceeds of \$27,000, of which \$25,000 was received on October 18 with the remaining \$2,000 to be paid 18 months after closing, subject to standard adjustments for representations and warranties.
- Intel acquired all the assets tied to the Smart Edge technology, with a book value of \$3,184 as at September 30, 2019.
- Intel assumed certain liabilities, including a lease, with a book value of \$62 as at September 30, 2019.
- Pivot and Intel entered into a three-year preferred channel partner agreement which designates Pivot as a non-exclusive preferred system integrator and channel partner for Smart Edge based solutions. Under this agreement, Pivot will market Smart Edge solutions and provide customers edge services including: deployment, system integration, monitoring and support services.

The Company will record this sale in Q4 2019. The Company expects to record a pre-tax gain on sale of Smart Edge of approximately \$21,000 to \$23,000 after finalizing closing costs and other matters.



## Cash flow analysis

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Cash provided by (used in) operating activities	(20,368)	65,018	(14,444)	50,899
Cash used in investing activities	(1,666)	(417)	(3,940)	(2,642)
Cash provided by (used in) financing activities	16,385	(61,478)	12,494	(46,086)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,649)</b>	3,123	<b>(5,890)</b>	2,171
Cash at the beginning of the period	15,080	4,284	15,312	5,248
Effect of foreign exchange fluctuations on cash held	(16)	7	(7)	(5)
<b>Cash at the end of the period</b>	<b>9,415</b>	7,414	<b>9,415</b>	7,414

*Note: Amounts presented are in thousands of U.S. dollars*

Cash used in operating activities increased \$85,386 and \$65,343 for the three and nine months ended September 30, 2019, respectively, as compared to the same period in the prior year. The increase was primarily due to timing of non-cash working capital items, specifically accounts receivable, inventory and accounts payable. The Company finances its working capital through its revolving credit line, therefore fluctuations in cash from operations are normal and are generally offset by changes in the credit line, which are captured in financing activities.

Cash used in investing activities increased \$1,249 and \$1,298 for the three and nine months ended September 30, 2019, respectively, as compared to the same period in the prior year. Fluctuations in investing activities were primarily due to the capitalization of Smart Edge development offset by reductions in capital expenditures in 2019.

Cash provided by financing activities is comprised of borrowings and repayments on secured and unsecured debt facilities, changes in banking overdrafts, dividend payments, proceeds from issuance of common shares related to the exercise of options, and stock repurchases. Cash provided by financing activities increased \$77,863 and \$58,580 for the three months and nine months ended September 30, 2019, respectively, as compared to the same period in the prior year. The change in cash provided by financing activities was primarily driven by movements in net borrowing associated with Pivot's secured borrowing arrangements and changes in banking overdrafts. As noted above, the revolving credit line tends to fluctuate inversely with the changes in working capital and cash from operations.

Days sales outstanding were 57 and 54 days at September 30, 2019 and December 31, 2018, respectively. Receivables and collections are closely monitored against expected cash flow.

Days payables outstanding were 57 days at both September 30, 2019 and December 31, 2018, respectively. The Company works closely with its vendors to share the cashflow implications when customers require longer payment terms where possible.

## Secured borrowings

### *Revolving credit facilities*

#### *JPMC credit facility*

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by 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 either the then existing lenders or additional lenders not currently parties to the agreement, 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.

Additional negative covenants place restrictions on additional indebtedness, liens, fundamental changes to the Company’s legal structure, investments, asset sales, sale and leaseback transactions, swap agreements, restricted payments, transactions with affiliates, restrictive agreements, amendment of material documents, and distribution of loan proceeds amongst the Company’s subsidiaries. The declaration of dividends and acquiring shares under the NCIB are both restricted payments under the JPMC Credit Facility, are subject to BOD approval, and must meet certain minimums for availability or minimums for availability and fixed charge coverage ratio. The Company was in compliance with all applicable covenants at September 30, 2019 and December 31, 2018.

The Company had availability to borrow under its revolving credit facilities of \$51,201 and \$83,318 as at September 30, 2019 and December 31, 2018, respectively, after giving effect to borrowing base limitations, swing loans and letters of credit issued.

Amounts owing under the Company's revolving credit facilities were \$121,715 and \$99,069 as at September 30, 2019 and December 31, 2018, respectively. In addition, a letter of credit for \$250 was outstanding at both September 30, 2019 and December 31, 2018.

#### *Interest rate forward swap agreements*

The Company is subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness, loans and borrowings. Interest rates fluctuate in response to general economic conditions and policies imposed by governmental and regulatory agencies. The Company's principal interest bearing obligations are its borrowings under the JPMC Credit Facility. Amounts outstanding under the JPMC Credit Facility bear interest based on a floating rate. An increase of 100 basis points to the interest rate applicable to the Company's floating rate obligations under the JPMC Credit Facility would have resulted in an increase of \$267 and \$178 during the three months ended September 30, 2019 and 2018, respectively, and \$815 and \$520 for the nine months ended September 30, 2019 and 2018, respectively. Sustained increases in interest rates could have a material adverse impact on the Company's financial condition and results of operations. The Company is evaluating alternatives to protect against potential increases in future interest rates.

The Company entered into an interest rate forward swap agreement ("Swap") with JPMC to mitigate the risk of fluctuating interest rates. The Swap contained cross-covenant restrictions, which required that the Company be in compliance with the JPMC Credit Facility. Under the terms of the Swap, the interest rate varied between 4.305% and 4.555% on \$50,000 of the amount outstanding under the JPMC Credit Facility. This range of rates was in effect from April 7, 2016 through the termination of the Swap 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 totalled nil and \$376 for the nine months ended September 30, 2019 and 2018, respectively. The fair value of the Swap was determined to be nil and \$51 as at September 30, 2019 and 2018, respectively. The fair value represented the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

#### **Contingent consideration**

##### *TeraMach*

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach Systems Inc., 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Technologies Inc., collectively the "TeraMach Group". The contingent consideration is dependent on the TeraMach Group achieving certain performance targets during four consecutive twelve month periods ending September 30, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be \$3,324.

The following table summarizes the changes and activity related to the TeraMach contingent consideration liability balance:

	Three months ended September 30, <i>(unaudited)</i>		Nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
Beginning balance	2,696	3,686	2,235	3,326
Change in fair value	205	285	569	801
Exchange rate differences	(31)	70	66	(86)
<b>Balance as at September 30,</b>	<b>2,870</b>	<b>4,041</b>	<b>2,870</b>	<b>4,041</b>

*Note: Amounts presented are in thousands of U.S. dollars*

The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C\$4,500 as at September 30, 2019 and December 31, 2018. Payments of the remaining consideration are required to be made within five business days of BOD approval of the Company's Q3 financial statements.

#### *Cloudscapes*

On July 1, 2017, the Company executed an Asset Purchase Agreement in order to acquire certain customer accounts, contracts, agreements and other arrangements of Cloudscapes Consulting, Inc. ("Cloudscapes"). The agreed upon purchase price for the acquired Cloudscapes assets was up to \$1,350. \$100 was paid upon acquisition with the remaining \$1,100 to be paid over eleven quarters at up to \$100 per quarter, commencing on October 1, 2017 and ending on April 30, 2020. The agreement also provided for a bonus for certain targets if achieved. This bonus was paid during Q1 2019.

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.

The following table summarizes the changes and activity related to the Cloudscapes contingent consideration liability balance:

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Beginning balance	362	778	636	930
Change in fair value	18	28	94	76
Payments	(100)	(100)	(450)	(300)
<b>Balance as at September 30,</b>	<b>280</b>	<b>706</b>	<b>280</b>	<b>706</b>

*Note: Amounts presented are in thousands of U.S. dollars*

## Contractual commitments

The following table summarizes Pivot's contractual obligations as at September 30, 2019:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	14,791	-	-	-	-	14,791
Secured borrowings	121,715	-	-	-	-	121,715
Accounts payable and accrued liabilities	-	232,965	-	-	-	232,965
Lease obligations	-	4,908	4,108	6,331	2,576	17,923
Contingent consideration	-	2,077	1,073	-	-	3,150
	<b>136,506</b>	<b>239,950</b>	<b>5,181</b>	<b>6,331</b>	<b>2,576</b>	<b>390,544</b>

*Note: Amounts presented are in thousands of U.S. dollars*

## Future financing

Management is focused on exploring and executing strategic alternatives to enhance its existing financing structure with options that provide the necessary flexibility to grow the business and meet its future obligations in the normal course of business. In addition to the Company's available borrowings under its credit facilities, these options may include an equity raise or other permanent capital injection in the event the Company undertakes future acquisitions.

## Share capital

### *Authorized capital*

The Company's authorized capital consisted of an unlimited number of voting common shares and preferred shares, with no par value. As at November 12, 2019, the Company had 39,473,032 common shares issued and outstanding.

### *Cancellation of common shares*

The Company has cancelled shares repurchased under its NCIB during 2018 and 2019 as follows:

	<b>Cancellation date</b>	<b># of Shares cancelled</b>	<b>Average price per share</b>	<b>Total cost of shares</b>
Shares repurchased under the NCIB	April 27, 2018	231,000	C\$1.97	C\$456
Shares repurchased under the NCIB	May 29, 2018	216,000	C\$1.92	C\$415
Shares repurchased under the NCIB	June 20, 2018	87,500	C\$2.01	C\$176
Shares repurchased under the NCIB	June 22, 2018	78,600	C\$1.95	C\$154
Shares repurchased under the NCIB	June 28, 2018	25,000	C\$1.95	C\$49
Shares repurchased under the NCIB	July 26, 2018	150,300	C\$1.92	C\$289
Shares repurchased under the NCIB	August 29, 2018	172,200	C\$1.84	C\$317
		<b>960,600</b>	<b>C\$1.93</b>	<b>C\$1,856</b>

*Note: Amounts presented are in thousands of Canadian dollars, except share amounts*

### *Stock options*

The Company's Incentive Stock Option Plan ("Plan") provides that the directors, officers, employees and consultants ("Participants") of the Company and its subsidiaries are eligible to receive incentive and non-qualified stock options. The effective date of the Plan was June 17, 2014. The Plan is a "10% rolling plan" in that it continuously provides for the reservation of a number of common shares under the Plan equal to 10% of the Company's issued and outstanding common shares less any common shares reserved for issuance pursuant to other security-based compensation arrangements. Amendments to the Plan were approved by shareholders on June 21, 2016, and certain administrative amendments to the Plan were approved by the BOD on May 15, 2019. The shareholders approved all unallocated options available for grant under the Plan on June 26, 2019. The available pool of shares that can be currently issued under the Plan (including shares reserved in respect of options currently outstanding and shares reserved for issuance pursuant to the Company's restricted share unit plan ("RSU Plan") as described below) as at November 12, 2019 is 3,772,048, assuming no shares are reserved for issuance pursuant to any other share compensation arrangement adopted by the Company. The exercise price of each option is subject to BOD approval but shall not be less than the market price at the time of grant.

From the Plan's inception to November 12, 2019, the BOD has granted a total of 3,107,500 options to Participants as follows:

Grant date	Expiration date	Vesting period	# of Options	Exercise price
June 21, 2016	June 20, 2026	Over 2 years	1,987,500	C\$1.60
August 31, 2016	August 30, 2026	Over 2 years	150,000	C\$1.96
December 22, 2016	December 21, 2026	Over 1 year	25,000	C\$1.73
June 30, 2017	June 29, 2022	Over 3 years	425,000	C\$2.47
August 8, 2017	August 8, 2022	Over 3 years	10,000	C\$2.61
August 17, 2018	August 16, 2023	Over 3 years	380,000	C\$1.68
November 16, 2018	November 16, 2023	Over 3 years	130,000	C\$1.68

*Note: Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

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	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Options outstanding at January 1	2,118,750	C\$1.79	1,946,875	C\$1.79
Options granted	-	-	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 at September 30	2,072,083	C\$1.79	2,167,083	C\$1.78
Options exercisable at September 30	1,588,749	C\$1.76	1,510,415	C\$1.68

*Note: Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

### ***Restricted share units***

The Company has adopted an RSU Plan that allows the Company to award restricted share units ("RSUs") to Participants upon such conditions as the BOD may establish. The effective date of the RSU Plan was June 17, 2014. The RSU Plan was amended on May 16, 2016 and approved by the shareholders on June 21, 2016. Certain administrative amendments to the RSU Plan were approved by the BOD on May 15, 2019. The shareholders of the Company approved an amendment to and restatement of the RSU Plan on June 26, 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 BOD. The maximum aggregate number of shares that may be issued under the amended and restated RSU 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 RSU Plan and the Plan is 10% of the Company's common shares issued and outstanding from time to time on a non-diluted basis.

From the RSU Plan's inception to November 12, 2019, the BOD has granted a total of 800,000 RSUs to Participants as follows:

<b>Grant date</b>	<b>Vesting period</b>	<b># of RSUs</b>	<b>Grant date fair value</b>
June 30, 2017	Over 3 years	385,000	C\$2.47
August 8, 2017	Over 3 years	5,000	C\$2.65
August 17, 2018	Over 3 years	390,000	C\$1.68
November 16, 2018	Over 3 years	20,000	C\$1.18

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

The RSUs vest annually over a period of three years. Within 60 days of the vesting date, the Participant shall have the right to receive, at the sole election of the Company, payment for the RSUs by any of the following methods or by a combination of such methods: (i) a cash payment equal in value to the number of RSUs recorded in the Participant's account multiplied by the weighted average trading price of the common shares for the five days preceding the vesting date; or (ii) one common share multiplied by the number of RSUs recorded in the Participant's account, issued from treasury and subject to the receipt of necessary approvals, less applicable withholdings in all cases.

A summary of the status of the Company's RSU plan as at September 30, 2019 and 2018, and during the nine months then ended is as follows:

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

*Note: Amounts presented are in thousands of Canadian dollars, except share and per share amounts*



### *Normal course issuer bid*

The Company obtained regulatory approval to proceed with the repurchase of up to 10% of the Company's issued and outstanding common shares (excluding shares held by principal shareholders, directors and senior officers) under an NCIB on the facilities of the Toronto Stock Exchange at prevailing market prices during the periods set out below. A copy of the notice submitted to the TSX in respect of the NCIB may be obtained, free of charge, by contacting the Company at [investors@pivotts.com](mailto:investors@pivotts.com).

Activity under the Company's NCIB is shown in the following table:

<b>Start Date</b>	<b>End Date</b>	<b>Number of shares approved</b>	<b>Number of shares repurchased and cancelled</b>	<b>Total cost of shares repurchased cancelled</b>
March 30, 2016	March 31, 2017	2,097,332	1,160,754	C\$1,977
June 22, 2017	June 21, 2018	3,820,852	993,900	C\$2,109
June 22, 2018	June 21, 2019	3,789,551	347,500	C\$655
June 24, 2019	June 23, 2020	3,791,395	nil	nil

*Note: Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

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 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. Purchases under the NCIB made during the term of the ASPP were and will be 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 proposes to renew the ASPP during the NCIB.

### ***Common share dividends***

On February 25, 2015, the BOD approved the initiation of a quarterly common share dividend. *(See Secured borrowings)*

Common share dividends were declared and paid (or will be paid with respect to the common share dividend declared on November 12, 2019) during 2018 and 2019 as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Distribution date</b>	<b>Per share amount</b>	<b>Total dividend</b>
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
October 31, 2018	November 12, 2018	November 27, 2018	C\$0.04	C\$1,579
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
November 12, 2019	November 29, 2019	December 16, 2019	C\$0.04	C\$1,586

*Note: Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

As at September 30, 2019, the issued share capital amounted to \$82,907. The changes in issued shares for the nine months ended September 30, 2019 were as follows:

	<b># of Common shares</b>
As at January 1, 2019	39,473,032
Share repurchases and subsequent cancellations	-
Stock options exercised	-
Shares issued in vesting of RSUs	175,255
<b>As at September 30, 2019</b>	<b>39,648,287</b>

*Note: Share amounts are unrounded*

### **Off-balance sheet arrangements and derivative financial instruments**

Pivot's off-balance sheet arrangements are comprised of certain operating leases entered into in the normal course of business. Pivot has no other off-balance sheet arrangements. Pivot does not enter into the speculative use of derivatives.

### **Financial instruments and other instruments**

Other than the Swap agreement described under *Liquidity and Capital Resources – Secured borrowings*, the Company is not a party to financial instruments.

## INTERESTS IN OTHER ENTITIES

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

Name	Jurisdiction	Equity Interest	
		Q3 2019	2018
ACS Holdings (Canada) Inc.	Canada	100%	100%
Pivot Acquisition Corporation	Canada	100%	100%
1955714 Ontario Inc.	Canada	100%	100%
Infoptic Technology Inc.	Canada	100%	100%
TeraMach Systems Inc.	Canada	100%	100%
TeraMach Technologies Inc.	Canada	100%	100%
ACS Holdings Corporation <sup>(2)</sup>	Canada	94%	94%
Pivot of the Americas S.A. de C.V.	Mexico	100%	100%
Pivot Services Japan G.K. <sup>(5)</sup>	Japan	94%	-
Pivot Research Ltd.	Jersey	100%	100%
Pivot Shared Services Ltd.	Ireland	100%	100%
Pivot Services Limited <sup>(3)</sup>	Hong Kong	94%	94%
Pivot Services International Singapore Pte. Ltd. <sup>(4)</sup>	Singapore	94%	94%
Pivot Solutions International (UK) Ltd	United Kingdom	100%	100%
Pivot Technology Solutions, Ltd.	United States	100%	100%
ACS (US) Inc.	United States	100%	100%
Applied Computer Solutions, Inc.	United States	40%	40%
Pivot Technology Services Corporation (fka New ProSys Corp.)	United States	100%	100%
ProSys Information Systems Inc.	United States	46%	46%
ARC Acquisition (US) Inc.	United States	100%	100%
Sigma Technology Solutions Inc.	United States	100%	100%
Smart-Edge.com, Inc. <sup>(1)</sup>	United States	100%	100%

<sup>(1)</sup> *Smart-Edge.com, Inc.*, was incorporated January 12, 2018.

<sup>(2)</sup> *ACS Holdings Corporation* was incorporated on July 17, 2018.

<sup>(3)</sup> *Pivot Services Limited* was incorporated August 16, 2018.

<sup>(4)</sup> *Pivot Services International Singapore PTE. LTD* was incorporated August 31, 2018.

<sup>(5)</sup> *Pivot Services Japan G.K.* was incorporated April 23, 2019

### *ProSys Information Systems, Inc. (“Old ProSys”)*

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

- Pivot has the right to acquire, at any time, the remaining shares of Old ProSys it does not already own.
- Any significant decision made at Old ProSys requires Pivot’s agreement, including changes to the Old ProSys board of directors, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of \$100, causing any material change in the business, and/or assigning or termination of any material agreement.

- Pivot receives the majority of the benefits from the activities of Old ProSys (95%+ of net income historically from Old ProSys).

The Company has certain contractual arrangements with Old ProSys which provide the Company the majority of the variable returns from Old ProSys activities. In addition, the Company holds a majority of the director and officer positions, which provide control on a de facto power basis.

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, and \$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 following table summarizes the financial information of Old ProSys, as included in its own financial statements:

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2019	2018	2019	2018
Current assets	61,995	57,587	61,995	57,587
Non-current assets	-	-	-	-
Current liabilities	57,350	51,464	57,350	51,464
Non-current liabilities	-	-	-	-
<b>Net assets</b>	<b>4,645</b>	<b>6,123</b>	<b>4,645</b>	<b>6,123</b>
<b>Revenue</b>	<b>64,812</b>	<b>93,472</b>	<b>201,762</b>	<b>326,791</b>
<b>Total comprehensive income (loss)</b>	<b>86</b>	<b>105</b>	<b>(628)</b>	<b>338</b>
Cash provided by operating activities	8,912	87,758	26,316	44,440
Cash used in investing activities	-	-	-	-
Cash used in financing activities	(8,912)	(87,758)	(26,316)	(44,440)
<b>Net increase in cash</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*Note: Amounts presented are in thousands of U.S. dollars*

### *Applied Computer Solutions, Inc. (“Applied”)*

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

- Pivot has the right in its sole discretion to either acquire, at any time, shares of Applied that it does not already own, or to designate a different owner to purchase the shares provided

such transfer(s) are in compliance with applicable Women Business Enterprise (“WBE”) requirements.

- The Applied board of directors is made up of a majority of Pivot employees.
- Any significant decision made at Applied requires the approval of the Applied board of directors, including board changes, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of \$100, causing any material change in the business, and/or assignment or termination of any material agreement.

The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Applied to its third party customers. The Company recognized this revenue on a gross basis.

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, and \$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.

The following table summarizes the post-acquisition financial information of Applied, as included in its own financial statements:

	Three months ended September 30, <i>(unaudited)</i>		Nine months ended September 30, <i>(unaudited)</i>	
	2019	2018	2019	2018
Current assets	883	41,330	883	41,330
Non-current assets	19,427	19,363	19,427	19,363
Current liabilities	17,341	57,283	17,341	57,283
Non-current liabilities	2,317	1,903	2,317	1,903
<b>Net assets</b>	<b>652</b>	<b>1,507</b>	<b>652</b>	<b>1,507</b>
<b>Revenue</b>	<b>25,409</b>	<b>61,590</b>	<b>176,073</b>	<b>236,821</b>
<b>Total comprehensive income</b>	<b>1,064</b>	<b>465</b>	<b>19</b>	<b>682</b>
Cash provided by (used in) operating activities	555	(136)	540	(32)
Cash used in investing activities	(25)	(7)	(25)	(7)
Cash provided by (used in) financing activities	(484)	-	(406)	-
<b>Net increase (decrease) in cash</b>	<b>46</b>	<b>(143)</b>	<b>109</b>	<b>(39)</b>

*Note: Amounts presented are in thousands of U.S. dollars*

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% for the nine months ended September 30, 2019 and 2018, respectively. The contractual arrangements with Applied may be terminated by either party upon notice to the other.

## RELATED PARTIES

ACS 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. As part of the termination agreement, ACS incurred an additional \$774 in termination costs for the twelve months ended December 31, 2018. Amounts payable were nil and \$615 as at September 30, 2019 and December 31, 2018, respectively.

## SUMMARY COMPENSATION TABLE

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

*Note: Amounts presented are in thousands of U.S. dollars*

## OTHER MATTERS

*GTS Technology Solutions, Inc., formerly known as Austin Ribbon & Computer Supplies, Inc.*

Pivot has no ownership interest in GTS Technology Solutions, Inc. (“GTS”). Pursuant to the terms of the Administrative Services Agreement between ARC Acquisition (US) Inc. (“ARC”) and GTS, which terminated on August 30, 2016, ARC had a right to variable returns in the form of fees based on GTS’ performance. Pivot also provided financing and certain financial guarantees for the benefit of GTS during the course of the relationship.

ARC had certain contractual arrangements with GTS, whose activities were consolidated with those of the Company. ARC received notification from GTS that it wished to terminate the existing arrangement effective August 30, 2016. Based on its review to date, ARC believes the amount due from GTS exceeds \$8,200. The Company established a full reserve for all amounts due from GTS during Q3 2016, which has remained in place through September 30, 2019.

On November 23, 2016, a lawsuit was filed by the Company’s affiliates seeking damages and other relief for breaches of various contracts, statutory violations and torts against a number of parties, including, but not limited to: GTS, certain GTS employees, GTS’ owners and GTS’ former shareholders (the “Unfair Competition Lawsuit”). The Company intends to vigorously pursue this

matter to recover damages incurred by Pivot Technology Solutions, Ltd. (“PTSL”), ARC and Pivot Acquisition Corporation (“PAC”) as a result of the actions of GTS, certain GTS employees, GTS’ current and former owners and GTS’ former shareholders. In the Unfair Competition Lawsuit, GTS, Laura Grant, Ryan Grant and Anne Fielding have filed counterclaims against PTSL, ARC and PAC, including claims for breaches of the GTS Agreements, tortious interference with contractual relations, defamation and conversion. All parties filed motions to dismiss under the Texas Citizens Participation Act (“TCPA”). The District Court denied GTS’ motion to dismiss under the TCPA. Following the denial of the motion to dismiss under the TCPA, GTS appealed. On August 3, 2018, the appellate court issued a decision in which it upheld, in part, the trial court’s denial of GTS’ motion to dismiss and reversed, in part, the trial court’s decision. The Company filed a petition to appeal the unfavorable portions of the ruling to the Texas Supreme Court in November 2018. The petition is currently under consideration by the Texas Supreme Court. By letter order, the Supreme Court requested briefs on the merits on May 31, 2019. ARC submitted its brief on the merits on July 31, 2019. Respondents submitted their opposition on October 21, 2019. ARC is due to file its reply brief on December 5, 2019. The Company intends to vigorously defend against the counterclaims that have been asserted.

On December 29, 2017, ARC filed a second lawsuit against GTS asserting that GTS breached its contractual obligations to ARC by failing to pay the fees it was obligated to pay under the Amended and Restated Licensing Agreement, Amended and Restated Administrative Services Agreement and Amended and Restated Distribution Agreement (“Breach of Contract Lawsuit”). The Breach of Contract Lawsuit alleges damages in excess of \$8,200. GTS has generally denied the claims and has sought to consolidate the Breach of Contract Lawsuit with the Unfair Competition Lawsuit. The Court denied GTS’ motion to consolidate the Breach of Contract Lawsuit with the Unfair Competition Lawsuit at this stage but has stayed discovery in the Breach of Contract Lawsuit until the Court issues a ruling on the appeal in the Unfair Competition Lawsuit. As of August 3, 2018, the stay in the Breach of Contract Lawsuit was lifted. ARC served GTS with written discovery requests. In response, GTS filed a second motion to stay pending resolution of the appeal. In December 2018, the Court denied GTS’ motion and the stay has been lifted. Discovery in the Breach of Contract Lawsuit is scheduled to conclude December 2, 2019. The parties have been ordered to mediate on or before December 15, 2019. If the mediation is unsuccessful, the parties will proceed to dispositive motions and ultimately at trial. ARC intends to vigorously pursue this matter to recover fees it is owed in connection with the relationship with GTS.

In all matters discussed above, the Company has not formed a conclusion as to whether a favorable outcome is either probable or remote. As such, the Company cannot express an opinion as to the likelihood of a favorable outcome or the amount or range of any possible recovery or costs associated with these matters.

## **RISKS AND UNCERTAINTIES**

The Company's business is subject to a number of risk factors which are described in its AIF for the year ended December 31, 2018 available at [sedar.com](http://sedar.com) under the Company's profile and pivotts.com and which are hereby incorporated by reference. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates, judgments and assumptions are evaluated on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that management believes are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those estimates.

By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the audited consolidated financial statements of future periods. Estimates and accounting judgments are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.

In making these estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with those in the prior year, and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized.

The accounting policies that reflect management's more significant estimates, judgments and assumptions which management believes are the most critical to aid in fully understanding and evaluating reported financial results are discussed below.

### ***Revenue recognition***

The Company makes significant judgments in determining whether a promise to deliver goods or services is considered distinct and in determining the costs that are incremental to obtaining or fulfilling a contract with a customer.



### *Distinct goods and services*

The Company makes judgments in determining whether a promise to deliver goods or services is considered distinct. The Company accounts for individual products and services 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.

### *Determining costs to obtain or fulfill a contract*

Determining the 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 (“IFRS 15”) requires significant judgments.

The Company uses estimates in the following key areas:

### *Determining 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 we have promised to our 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.

### *Determining 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 best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

### ***Impairment***

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.

The Company measures the recoverable amount for each CGU by using a fair value less costs to sell (‘market’) approach. The market approach assumes that companies operating in the same industry will share similar characteristics and that Company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate fair value. Under the market approach, fair value is calculated based on earnings multiples of benchmark companies comparable to the businesses in each CGU. Data for the benchmark companies was obtained from publicly available information, and ranged between 5.9 and 7.9 times earnings.

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

### *Taxes*

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 cash flows 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. Additionally, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

## NEW STANDARDS AND AMENDMENTS ADOPTED IN 2019

### *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, which requires assessment and potential restatement of previous financial statements, where transition adjustments exist.

As required by IAS 34, *Interim Financial Reporting*, 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 unaudited condensed 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 consolidated statements of income (loss) 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>

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 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.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### ***Disclosure control and procedures***

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is made known and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As required by the Canadian Securities Administrators' National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated, the design of disclosure controls and procedures. Based on that evaluation, they have concluded that, as of the end of the period covered by this MD&A, the design of the Company's disclosure controls and procedures were effective.

### ***Internal control over financial reporting***

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute assurance that the control objectives will be met with respect to financial statement preparation and presentation.

Management has conducted an evaluation of the design of internal controls over financial reporting, utilizing the 2013 COSO Internal Control - Integrated Framework. Based on this evaluation, management concluded that the Company's ICFR design was effective as at the reporting date.

### ***Changes in internal control over financial reporting***

There were no changes in the Company's internal controls over financial reporting that occurred during the three and nine months ended September 30, 2019, that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.